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## TOWARD A CONCEPT OF WORKABLE COMPETITION

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Where one of the conditions of perfect competition is absent, the presence of others may lead to greater rather than less imperfection. Long-run curves of individual demand and cost are flatter than commonly represented, and the imperfections of competition correspondingly less. Industry subject to fluctuating demand requires prices in excess of short-run marginal cost. Favorable conditions appear to include a sloping individual demand curve, and some uncertainty whether a reduction of price will be promptly met.

With standardized products, a chaotic market tends toward ruinous competition. Pure oligopoly is seldom found; the important case being that of openly-quoted prices with varying amounts of deviations on actual sales. Standard products with sloping individual demand curves are also possible.

While extreme quality differentials approach monopoly, more moderate ones may be workably competitive, especially with further growth of closer substitutes and better knowledge of qualities on the part of buyers.

### I. *Introduction*

Theories of imperfect and "monopolistic" competition have for some time been current, in an unformulated state, in the field of economic policy; and important beginnings have been made at formulation by economic theorists. As a necessary step in this last development, the conception of "perfect competition" has itself for the first time received really specific definition and elaboration. With this has come the realization that "perfect competition" does not and cannot exist and has presumably never existed, for reasons quite apart from any inescapable tendency toward collusion, such as Adam Smith noted in his familiar remark on the gettings-together of members of a trade. What we have left is an unreal or ideal standard which may serve as a starting point of analysis and a norm with which to compare actual competitive conditions. It has also served as a standard by which to judge them.

I am not quarreling with proper use of this standard as an ideal. However, it has seemed at times to lead to undesirable results, in that it does not afford reliable guidance to the factors which are favorable to the closest available working approximation to that ideal, under actual conditions. With this problem the present paper is concerned.

The theory of the subject has defined for us the results of various forms of imperfect competition—some of the results being still debatable. It has

defined these results in abstract terms which might be quantitative if the controlling functions could be measured, but which in the absence of such measurement remain qualitative, indicating to most minds chiefly the *direction* of departure from the standard of "perfect competition." There has been some speculation as to the amount and seriousness of these departures, but no very definite conclusions. And there has been speculation as to ways of reducing the imperfections, chiefly in specific cases.

It seems that a contribution might be made to this process, of an orienting sort, by attempting to formulate concepts of the most desirable forms of competition, selected from those that are practically possible, within the limits set by conditions we cannot escape. This would at least be an antidote to mere "historic homesickness"; but might render a more positive service. For some of the features listed as "imperfections" in our present theoretical scheme may turn out to have some positive use in actual situations. It would be a truism to say that the most effective forms of competition we have, or can have, are imperfect forms, since there are no others. But it will mean something if we can find, after due examination, that some of these forms do their jobs well enough to be an adequate working reliance—more serviceable, on the whole, than those substitutes which involve abandoning reliance on competition. And it will be useful if we can learn something about the kinds and degrees of "imperfection" which are positively serviceable under particular conditions.

One central point may be put abstractly. If there are, for example, five conditions, all of which are essential to perfect competition, and the first is lacking in a given case, then it no longer follows that we are necessarily better off for the presence of any one of the other four. In the absence of the first, it is *a priori* quite possible that the second and third may become positive detriments; and a workably satisfactory result may depend on achieving some degree of "imperfection" in these other two factors.

Suppose the first requisite is perfect two-way mobility of the factors of production, with no specialized and irrecoverable fixed capital. Granted this, an industry can stand the most rigorous conditions in all other respects. It may have a multitude of small producers, who produce a supply and then place it on a market for what it will bring instead of quoting a price and seeing how much they can sell at that price; and it may produce a standardized commodity, so that individual demand curves are infinitely elastic: but efficient producers will still cover their total costs of production. Take away the saving grace of perfect two-way mobility and leave the other conditions; let demand decline, and competition becomes too strong: you have a "sick industry" on your hands. Reduce the number of producers and let them sell on quoted prices and anticipate one another's reactions and you have a form of "oligopoly." Change one more condition, substituting a chaotically im-

perfect market in which irregular, temporarily secret and discriminatory pricing is the rule rather than the exception and you have (whenever demand decreases or fails to grow as anticipated) a situation tending strongly to degenerate into a cut-throat price war, driving prices below an efficient producer's total cost of production, though, if producers are few and large, this condition is not likely to be permanent.[1]

These examples are merely illustrative. They point toward a thesis, which finds reflection in the apparent confusion of our present policies (trying to raise some prices and lower others)—namely, that imperfect competition may be too strong as well as too weak; and that workable competition needs to avoid both extremes.

## II. *Competition and Its Forms*

By way of a generic definition of competition in price between business units and sellers, we might consider the following.

> Competition is rivalry in selling goods, in which each selling unit normally seeks maximum net revenue, under conditions such that the price or prices each seller can charge are effectively limited by the free option of the buyer to buy from a rival seller or sellers of what we think of as "the same" product, necessitating an effort by each seller to equal or exceed the attractiveness of the others' offerings to a sufficient number of sellers to accomplish the end in view.

This is not a complete definition, but brings out certain features crucial to the following argument. Specifically, it is not limited (as are some current implied definitions) to cases in which one seller succeeds in excelling the offerings of others; and it focuses attention on a crucial point which is sometimes neglected—namely the nature of the option actually open to the buyer.

The specific character of competition in any given case depends on a surprisingly large number of conditions—so many, in fact, that the number of mathematically possible combinations runs into the hundreds or thousands—and suggests the possibility that every industry may be in some significant respect different from every other, or from itself at some other stage of development. At least ten conditioning factors appear worth noting, within each of which there are a number of variants or gradations.

1. *The standardized or unstandardized character of the product.* Standardization may be so complete that an open market tolerates no price-differential between different sellers at any one point of purchase, or it may tolerate moderate quality-differentials which are in effect subject to competitive forces, or the differentials may be large and subject to little or no competitive check. The commodity may be standardized while services rendered in connection with it permit some price differential, or it may be standardized by segregation of "seconds."

[1] These conditions are sufficiently familiar to permit the reader to fill in the gaps in the above shorthand statement of the conditions necessary to these various results.

2. *The number and size-distribution of producers.* There may be many, all small, or few, all large, or a few large and numerous small, in which case the large producers may or may not be the "dominant" factor in the market.

3. *The general method of price-making.* The producer may create a supply and then sell it at whatever the market will bring ("supply-governed price"); or he may quote a price and sell what he can at that price until he sees fit to change it ("quoted price"). In the latter case, he may produce to stock or to order. Or he may sell on sealed bids.

4. *The general method of selling.* Sale may be by brokers in a produce-market, by exclusive agents, through general dealers or direct *via* traveling salesmen or by mail.

5. *The character and means of market information.*

6. *The geographical distribution of production and consumption.* This is important where transportation cost is a material factor.

7. *The degree of current control of output.* Production may be seasonal, or non-seasonal with a significant lag between the initiation of a change in the rate of production and the resulting change in supply available for sale, or inventory-changes may be sufficient to cushion the effect of this lag and so minimize its importance.

8. *Variation of cost with varying size of plant or enterprise.*

9. *Variation of cost with short-run fluctuations of output.*

10. *Flexibility of productive capacity.* Increase may be easy and rapid, or difficult and slow; while rapid decrease may be virtually impossible, owing to fixed capital investment.

The following outline, which is tentative and admittedly incomplete, attempts to take account of some of the more important conditioning factors, selecting as the basis for the main heads those which appear to have more effect on price behavior. The distinction between "quoted" and "supply-governed" prices has already been defined, and appears to deserve an important place. The term "quoted" is used instead of "administered" because the latter term carries implications of some degree of discretionary control, which may not always accompany the mere quoting of a price. For "supply-governed" the phrase "market-made" might be used to indicate that the making of the price quotations is literally *done by* the market machinery (as on a produce exchange) instead of being merely conditioned or controlled by it; but it seemed desirable to avoid any possible implication that the only real markets are those of the produce-exchange type, and to use terms consistent with a more inclusive concept of a market. A producer who does not sell his goods on a produce exchange or the equivalent might be surprised to be told that he had no market for them at all. The outline is herewith presented, with apologies for the amount of familiar material it contains. Its indebtedness to Professor Chamberlin is obvious.

I. *Pure (rigorous, unmitigated) competition.* Requisites: standard product, known price, many sellers available at any locality, free entry. Price may be quoted or supply-governed. Price tends to equal marginal cost.

A. *Perfect competition.* Probably the outstanding requisite, in addition to

the above, is perfect two-way mobility of the factors of production; also assumptions as to cost-behavior and relationships consistent with the continued presence of many sellers. Current control of output is probably implied. Price covers average cost, which equals marginal cost.

B. *Imperfect pure competition.* Lacking perfect mobility, marginal cost is less than average cost when demand at average-cost prices falls below capacity.
   1. Output currently controllable by each producer.
      a. Capacity such that price exceeds average cost at peaks of demand, and covers cost on average of fluctuations.
      b. Conditions such that average price is less than this. ("Sick industry" problem; ex., bituminous coal-mining.)
   2. Output not currently controllable (ex., agriculture). This includes the problems giving rise to the "cobweb theorem," and related problems. Sub-heads a and b as above. (Under b, "sick industries"; ex., unregulated agriculture.)

II. *Modified, intermediate or hybrid competition.* ("Monopolistic competition" in the broader sense.)
   A. Standard products, few producers. The most important cases involve formally free entry, but no exit without loss.
      1. Quoted prices, horizontal individual demand schedules if others' prices unchanged, and variants.
         a. Open price, perfectly conformed to (rarely found): *first species of oligopoly.*
         b. Imperfectly-known price and chaotic discrimination.
            (1) Enduring ignorance: local near-monopolies.
            (2) Temporary ignorance: tendency to "cut-throat competition."
         c. Open price with limited departures, all or part of the time: secrecy temporary. Probably the most important case.
      2. Supply-governed prices (implies an open market). Individual demand schedules sloping, but more elastic than general demand schedule: *second main species of oligopoly.*
      3. Quoted prices, sloping individual demand schedules.
         a. Demand schedules definite and calculable (spatially separated producers with uniform mill prices). May result in a third species of oligopoly.
         b. Demand schedules indefinite (ex., above condition with limited freight absorption).
   B. Unstandardized or quality products: "*monopolistic competition.*" Individual demand schedules sloping, but more elastic than general demand schedule.[2] Importance of competitive element hinges largely on extent to which quality differences are open to free imitation. Schedule of response to selling outlay a complicating factor.
      1. Quoted prices; single producer's product usually standardized or graded, with separate disposal of "seconds."
      2. Supply-governed prices; price-differentials for quality made directly in market. For agricultural products number of suppliers usually nullifies any monopoly element.

[2] For this purpose the "general demand schedule" would presumably have to be defined in terms of the response of sales to simultaneous and proportionate changes in the prices of all the grades or sub-species of "the commodity" in question.

Certain competitive categories cross the divisions of this outline. For example, "imperfect competition" covers headings I, B, and II. What may be called "atomistic competition" covers heading I, and an undivided share of the cases under II, B, though it may be noted that the outline suggests some reservation as to whether atomistic competition in the sale of quality products deserves the designation "monopolistic competition."

Among the omissions from the outline are the effects of durability *versus* perishability of products; and most of the complications of cost-behavior, including the problem of joint *versus* separable costs. And it may be that a separate set of headings should have been devoted to retail selling, which presents special problems. For instance, even physically identical commodities need not sell at identical prices in neighboring stores. This fact could be forced into the headings of the outline, but might better be separately dealt with. Most important, perhaps, the outline makes no note of differences between long-run and short-run adjustments. This is vital, since it seems probable that one of the criteria of workable competition is that there shall not be too gross discrepancies between the action of short-run pressures and long-run tendencies.

### III. *Long-Run Considerations*

At the risk of being convicted of an optimistic bias, I should like to point to certain ways in which long-run forces serve to mitigate the seriousness of the effects of imperfect competition. These considerations center largely in the proposition that long-run curves, both of cost and of demand, are much flatter than short-run curves, and much flatter than the curves which are commonly used in the diagrams of theorists. In fact, it may appear that much of the apparent seriousness of Professor Chamberlin's results derives from what I believe to be the exaggerated steepness of the curves he uses to illustrate them. This, of course, is a matter of degree only; but in the field of imperfect competition, and especially in the search for workable adjustments, these matters of degree are of the essence of the problem.

In the first place, the more attention centers on the imperfections of active competition, the more important become the forces of potential competition and substitution (both of which find a place in Chamberlin's system). Neither is a perfect check; but both together may come near it under favorable conditions.

As to potential competition, it is this, or the materializing of it, on which Chamberlin relies for the tendency to wipe out monopoly profits in the production of quality goods, and to bring individual demand curves and cost curves into tangency. But there seems to be a tendency to regard the business-man as having too little foresight to anticipate the materializing of potential competition, and as following an unduly grasping policy in re-

gard to price, and an unduly restrictive policy as to output, until potential competition becomes actual, and the industry is burdened with too many producers, whose individual output is restricted short of the optimum. This undoubtedly has some truth. It would be expecting a great deal of business-men that they should generally have perfect foresight of the emergence of potential competition, and on that account should avoid unduly restrictive policies. Nevertheless, there is apparently a tendency of somewhat similar effect on the part of some or many businesses, even if not guided by such impossibly perfect foresight. There is a tendency to strive to maintain and increase output, as if this were an end in itself, aside from the resulting net earnings and perhaps at a short-run sacrifice of net earnings which a more grasping policy might secure. In such cases, business, whether putting its reasoning in this form or not, acts as if it were governed by anticipations of potential competition, and by the desire to forestall its materializing.

As to substitution, it is a commonplace that the triumphs of modern industrial chemistry have vastly increased its range and flexibility; and it is increasingly spoken of as one form of competition. Indeed, it seems that the differences between substitute products, in cost of production and service value, are nowadays often no more serious than similar differences between different varieties of what we think of as the "same" product. This fact is so much in the business-man's consciousness that there is no need to emphasize it. Both potential competition and substitution have the effect of flattening the slopes of individual demand curves.

To develop the full importance of this it is necessary to take account of the time dimension of these curves. The abstraction of a timeless demand-schedule has tended toward the neglect of this factor. Yet in actual elasticities of demand a crucial element is the time required for a given change of price to bring about a given effect on volume of sales. In some instances the full effect may be felt in a matter of hours, while in others it may require a generation. In the latter case, of course, the effect of the price factor will be inextricably tangled with that of a complex of other changes.

One feature of this relationship might be expressed by a skewed surface or contour-map in which the vertical dimension measures price—or possibly price minus optimum selling expenses, if such a quantity could be given a usable definition.[3] The price should be that of one producer's grade of the product, those of others' grades being held constant. What we may call the west-east dimension would represent the length of time during which a given price-relationship remains in effect; and the north-south dimension would represent physical volume of sales of this producer's grade of the product. The intersection of the surface with any

[3] It would presumably vary with price, and also be complicated by the time-factor.

vertical north-south plane would be a demand-schedule representing the sales under various price-differentials, each being assumed to remain in effect a length of time represented by the distance of the plane from the west end of the diagram, where time equals zero. These curves would grow less steep from west to east. The horizontal contour-lines would be growth-curves (positive or negative) each representing the increasing effect, with time, of a given price-differential on volume of sales.

Such a surface would, however, represent only a beginning of analysis. Action by one producer would provoke responses by others which, if the original action had gone some distance, would act on a modified set of growth-curves. Changes in quality are, of course, not represented. Actual demand-curves may depend, not only on the price-factor represented, but also on the relation between the price-range of the various grades of this commodity and those of various substitutes; and on the profits made by this producer and by others in the industry, as an incentive to the materializing of potential competition. Even this affords an unduly simplified picture, and the whole functional relationship is probably so complex as to defy mathematical plotting.

The chief proposition remains—namely, that the long-run effects of a high-price policy on the part of any one producer would tend to a much larger falling-off in sales than would occur in the short run. The long-run schedule might in numerous cases approach the horizontal so closely that the slope would not be a matter of material moment, in the light of all the uncertainties involved. And this fact may be roughly represented by the attitude of some businesses, that it is "good business" to maintain and expand their sales volume, even at some sacrifice of immediate profits.

Long-run cost curves also tend toward the horizontal. There are two quite distinct types of cost-curve for a given productive unit in relation to volume of output. One has to do with changes in output within the physical capacity of an existing plant, and the other with changes in the amount of plant capacity without change in the percentage which is utilized. Long-run cost curves are apparently dominated by the second factor; and I shall take it for present purposes as representing the long-run function. Evidence of its character is difficult to secure, some of the best indications being derived from simultaneous comparisons of costs in considerable numbers of plants of different size, with the effect of percentage utilization eliminated where possible. Such evidence of this sort as I have analyzed points to the conclusion that it is likely to be only the very small plants which show materially higher costs causally traceable to their small size, while most plants are in a range of size which shows little or no downward or upward trend with increased size, while other factors account for much greater differences in cost between plant and plant than those due to size itself.

The indicated conclusion is that there is typically no definite "optimum size," but rather a wide optimum range of size, within which most plants fall; and that economies due to size are far from being such a vitally important factor as is suggested by the type of theoretical cost curve now in general use. A further conclusion is that imperfections in competition arising from the slopes of the long-run curves of cost or demand may, so far as these curves affect actual policy, be relatively unimportant. So far as immediate price policies are governed by long-run demand curves, or behave as if they were so governed, they are likely not to differ materially from those of perfect competition (this would have little application to the problem of unduly expanded selling costs). And even if the long-run scale of production is somewhat restricted, cost of production, as distinct from selling, is not likely to be thereby materially increased.

IV. *Short-Run Conditions*

The most serious problems of imperfect competition seem, as already noted, to center in the fact that the immediate short-run pressures are out of harmony with the conditions of long-run equilibrium. And the starting-point of a search for the conditions of workable competition seems to be the search for ways and means of reducing these discrepancies, under the conditions actually encountered. One approach to this question is by way of some of the paradoxes or conflicts in prevalent ideas as to the symptoms of a satisfactory competitive condition.

Perfect competition requires a market with such full knowledge that a standard commodity cannot sell at two prices at the same time at the same point of purchase and delivery. Actually, at least in large-scale industry, such a condition of "identical prices" is frequently taken as an indication of a monopolistic condition (Outline, II, A, 1, a.). And a state of less perfect market knowledge, permitting differences in price, is sometimes spoken of as causing active price competition to arise, where presumably there had been none previously (Outline, II, A, 1, b, (2)). This attitude implies a theory that one kind of imperfection requires another to take part of the curse off it. And there would be no paradox about it if the same persons did not at other points maintain the attitude that any departure from any of the conditions of pure or perfect competition is evidence of a monopolistic tendency.

The above implied theory suggests that the standard character of the product is not in itself favorable to workable competition between few and large producers, and that in such cases effective competition requires some uncertainty whether a reduction in price will be met or not. This in turn points toward a search for the least undesirable form of remedial "imperfection" (uncertainty).

Among the apparent inconsistencies of prevailing attitudes is the position that discrimination is a non-competitive symptom, coupled with the view that, when buyers invite sealed bids, unless they get a price lower than the general market affords, this result proves monopoly. In part, this seems to be a manifestation of the fairly general psychology of buyers, who do not object to discrimination so long as they get the benefit. So far as there is a real economic theory involved, it seems to imply the abandonment of the idea that competition and discrimination are mutually inconsistent. There is *prima facie* ground for the hypothesis that some forms and degrees of discrimination have a place in a scheme of workable, as distinct from perfect, competition. And as part of this problem, the theory of sealed-bid competition stands out as an unworked field for economists.

Perfect competition requires operation at full capacity, which is sometimes defined as the point of minimum cost, or as the point where marginal and average cost are equal. Actual competition has to make terms with the fact that, when demand fluctuates, industry must inevitably be operating short of full capacity much of the time. Workable competition must be workable under these conditions. Some of the requirements of such a result may be briefly indicated.

A price which at all times covers only short-run marginal cost would lead to large operating deficits whenever demand is short of capacity, and would bankrupt most industries, no matter how shock-proof their capital structures. And since the horizontal individual demand curve of pure competition leads to a price that covers only marginal cost, it is not one of the conditions of workable competition. Instead, the requirement is an individual demand curve with sufficient slope to bring price, on the average, far enough above marginal cost so that average cost may be covered, over the run of good times and bad. Along with this should go, presumably, enough price flexibility to afford a stimulus to demand in dull times, and the reverse in boom times. These are not easy requirements, but at least they mean that workable competition has some positive use for the sloping individual demand curve.

This will be disputed by some on the ground that competition can be trusted automatically to limit capacity at such a point that even under pure competition profits in good times will compensate for losses in bad times; and that this is the desirable adjustment.[4] A realistic view of this objection seems to involve the whole theory and practice of maintaining stand-by units (usually of inferior quality) to handle peak demands. Without going into this matter at length, it may be sufficient to indicate that, in the ordinary course of modernization and replacement, the stand-by units (the best units

[4] *Cf.* Outline, I, B, 1, a. In the discussion at the Round Table where a shorter form of this paper was read, this objection was raised by Professor George Stigler.

which are just not good enough to justify keeping them at continuous or nearly-continuous operation) are not likely to be sufficiently obsolete and inefficient to bring their marginal costs of operation up to a point that would yield large profits for the plant as a whole: large enough to offset operating deficits incurred most of the time, and to make the average represent an attractive return on investment. Hence the indicated result is extremely unlikely to follow.

Cost curves for varying output with a fixed plant probably fall into two main groups or types. In one, physical capacity has fairly rigid limits, and marginal cost appears to remain approximately uniform, nearly or quite up to the limit of physical capacity. This type may provisionally be taken as characteristic of continuous-process industries, dependent on heat or chemical action, which cannot be substantially speeded up beyond the ordinarily ecenomical rates. The other type would include processes which can be speeded up or worked overtime. Here it may be possible to produce considerable amounts beyond the point of lowest average cost, with marginal cost above average operating expenses, though possibly not far enough above so that a price equal to marginal cost would yield a fair return on the fixed investment.

The use of stand-by units might bring the first type a little nearer the second. But in the instances of steel and cement, this factor does not appear to modify the pattern of costs materially—possibly for the reasons already briefly indicated. In either case, it seems fair to conclude that the industry could not survive under prices which were always limited to marginal costs of the short-run variety, unless it deliberately destroyed its superseded units instead of leaving them to serve as stand-by capacity, and thus created an artificial bottle-neck on industrial expansion. And that may be dismissed as a possibility, for reasons hardly necessary to state. Under these circumstances, certain types of competitive situations may be distinguished and briefly analyzed.

First we may consider the standardized product, sold in a chaotic market in which discrimination is possible; any sale may be a subject for special bargaining, and special prices will permit the producer making them to gain a volume of business of material size, relative to his total sales, before these special prices are discovered and met by his competitors. This condition has been represented in the outline (II, A, 1, b) by a time-lag in the spread of market knowledge, which may be longer or shorter; but this is not the only controlling factor. A few hours during which the price-cutter can make fast one very large future order may be as good as a much longer period in an industry where there are no very large buyers or where firm long-term contracts cannot be secured. The size of the price-cutter relative to that of his rivals also has a bearing on the outcome. Variants are

possible; but the general conclusion of a tendency to drive prices below cost seems justified.[5]

The reason for this may be suggested by an abstract limiting case, which does not, however, accurately express the operation of actual cases. If a particular bit of business can be secured by a special reduced price, applicable to it exclusively, and will be lost if this special price is not made, and if this transaction is expected to have no effect at all on other business, then it is a source of increased net revenue at any price above marginal cost. Actually, such reductions would not have the general effect indicated above unless they did spread to other business; and if this is their usual result, rational business-men would naturally come to expect it. But the deterrent effect of this expectation may be partially counteracted in a number of ways. Most important, perhaps, is the likelihood that someone will hope to "get away with it this once," coupled with the suspicion that others will start the process, or have already done so, and that the first seller will not succeed in protecting the price structure by refraining, but will merely lose business. Then there are the sellers who are so hard-pressed for cash that they may disregard all but immediate effects on net income. The result is a nibbling process which can almost always go a little farther than it has gone. This may be mitigated by intermittent attempts to introduce more open and uniform prices.

At the other extreme comes the standardized product, with prices completely open and uniform for each purchasing locality (Outline II, A, 1, a). Here a reduction is sure to be met almost instantaneously, so long as price is above marginal cost; and the producer initiating it may, in the extreme case, hope to gain only his *pro rata* share of the general increase in sales of all producers resulting from the reduction in price. His sales would then be expected to increase in the same proportion as if he had a complete monopoly; and if this were the whole story, the incentive to reduce prices might be expected to stop at the same point as if a monopoly existed. However, the incentive to raise prices, if they get below this point, is a different matter, since an increase will not be automatically met; and thus the conclusion that this situation yields results identical with complete monopoly, is not warranted.

Among numerous modifying circumstances, there is still the possibility of securing a few large forward contracts, or at least some valuable goodwill, by taking the initiative in a general price reduction. In the second place, the market is governed by whichever among the several producers has the lowest price-policy. If one of them is keenly alive to the desirability of forestalling potential competition, he may fix a price close to the long-

[5] This might be modified by adopting schemes of cost-accounting with heavy allocations of capital-overhead to peak output. Such allocations represent a mixture of short-run and long-run considerations, and may fairly be disregarded here.

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run normal, and the others will have to follow. There is much room in such a situation for the personal equations of different producers to modify the result. Or an increase of wages or prices of materials may, without changing the selling-price of the product, bring it nearer the competitive norm; and if for this or any of the other reasons mentioned, it gets below the monopoly level, there is no force tending to bring it back up, and it may remain there for a considerable period. The generally indicated result is, not so much a monopoly price as a decidedly sticky price, somewhere between the levels of pure competition and monopoly.

All this is on the assumption that the open prices are perfectly adhered to; and this is probably an extremely rare case. In fact it would not be very rash to assume that in most cases some degree of irregular pricing is chronic, and that there are hardly any in which occasional fits of it do not occur. The pure case may prove to be almost entirely limited to instances of open-price systems with waiting periods and otherwise implemented; and it is probable that even these should not be expected regularly to result in 100 per cent uniformity.

Thus it seems that the really important problem is not so much the case of pure "oligopoly," but the case in which the existence of openly-quoted prices exercises some degree of restraint on more or less chronic "chiselling" which is irregular, temporarily secret, and usually more or less discriminatory. Such a situation contains no guarantee of ideal prices; but it is something intermediate between pure oligopoly and the ruinously low prices likely to result from unlimited market chaos: more strongly competitive than the first, and more workable than the second. And something intermediate appears to be well-nigh a necessity. Incidentally, such limited "chiselling" seems likely in a general way to become more active in times of slack demand, and thus to tend to some degree in the direction of price flexibility.

Economic theory has not attacked the special problem of this form of pricing; and perhaps it cannot shed much light on it. But it appears to be one of the most important forms of imperfectly-competitive pricing, and might under favorable conditions prove to be fairly "workable." These conditions may be rather subtle and intangible matters; and the facts bearing on them are certainly not easy to secure. Nevertheless, it seems rather important to know more about them than we do.

As an approach to such analysis, a few tentative propositions may be considered. First, the actions of business-men in such a situation may be interpreted in the light of a complex of motives and considerations, among which the following might be mentioned. (1) The immediate effect on net earnings. (2) The effect with some account taken of the probable early reactions of others. (3) Long-run effects, chiefly reflected in effects on volume of sales. (4) Intangibles, including effects on good-will and on the

satisfaction or dissatisfaction of customers, bearing largely on the expediency of setting limits to discriminations and discrepancies between actual and openly-quoted prices. This may lead to a desire to make openly-quoted prices "fairly representative" of prices actually received, which may mean "equal to the prices actually paid by those customers who have no exceptional bargaining leverages," or may have somewhat different shades of meaning. There are obvious reasons for not wishing one's openly-quoted prices to give one the reputation of charging more than one is actually charging.

Reductions in openly-quoted prices may be classified according to the proportion of actual sales that the reduction is expected to affect. The intention and expected effect may be to reduce the whole scale of prices actually charged. Or the openly-quoted prices may apply to a considerable part of the business, and the intent may be to bring these prices down without reducing the lower ones, and thus reduce the spread. Or the reductions may occur at a time when the openly-quoted prices have come to apply to little or no business; and the intent may be simply to make them more "representative." Increases would presumably be intended to bring about an increase in the general scale, and would occur naturally at a time when demand was strong and competitive pressures toward irregular departures were therefore relatively weak. Or they might occur after a period of ruinous price-cutting had made producers ready to follow an upward lead—preferably one substantial enough to afford real relief, but not so large as to make the industry too invitingly prosperous. The preceding price-war would need to have driven home the bad effects of irregular pricing sufficiently to keep it temporarily in abeyance, or within narrow limits.

Special departures from openly-quoted prices are made for obvious reasons; and the large customer has an obvious advantage in securing such special prices. Such prices are not likely, however, to go close to the theoretical limit of marginal cost unless the whole price-scale has become demoralized to an extent that would bring it into the class of the chaotic market, already discussed. In typical large-scale industries, if the whole price-scale is such as to yield anything approaching a normal return on investment, special prices could not go close to short-run marginal cost without creating such discrepancies as a market of the sort we are now considering is not likely to tolerate. Special prices are, however, likely to be made without full recognition of their ultimate effects in dragging the whole price-structure downward, and to be lower than they would be if these ultimate effects were accurately forecast and fully taken into account.

Particular cases may be influenced by a number of specific pricing practices, including probably the looser forms of open-price arrangement, which, as already indicated, are not likely to bring about complete elimination of irregular pricing. Advance announcements of price changes may

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facilitate increases by enabling the initiator to learn whether others are following suit, without losing too much business in the interval. The practice appears likely to have less effect on price reductions. Protection of customers against price declines subsequent to the giving of orders is a practice of some significance, largely neglected by students. It seems to have little applicability except in cases of quoted prices in industries with a limited number of sellers and a fairly well organized price-structure. Its effects would be different according as it was applied in an industry in which orders are given at a particular time of year for the coming season (for example, retail sale of oil for household heating) or an industry in which there are always some outstanding orders which would be affected by a price reduction. These are only a few instances of special practices which a more complete study would need to take into account.

A standard product is consistent with a sloping individual demand curve, chiefly in the case of few sellers and a supply-governed price (Outline II, A, 2). The slope of the curve is a function of the output of the producer in question, relative to the total output; and the resulting excess of price above marginal cost, while worth study, may not be a real "imperfection," from the standpoint of workable competition. Price flexibility with fluctuating demand would theoretically depend on the nature of the fluctuation as affecting elasticity near the existing price-range. But these problems need not detain us here.

Another special case is that of a standardized product, with sloping individual demand-curves which are definite and knowable—the case of spatially separated producers selling at uniform mill prices (Outline II, A, 3, a). As a first approach, we may assume the marginal costs of the various producers to be equal, and known. Here there would be a point, above marginal cost, below which price would not go. If the slopes of the individual demand curves were just the right ones, this point might be the long-run normal price, but it seems more likely that it would be below it. These slopes would depend on the spatial distribution of demand; and one difficulty is that, with large consuming centers, the curves would be discontinuous. Another difficulty is that, if prices were above this stopping-point, there would be no incentive to lower them, since a reduction would be sure to be met. If the marginal costs of the producers were different and uncertain, there might be a range instead of a point, within which active price competition might prevail. But there would still be a higher range within which there would be no reliable force tending to reduce prices. Thus the conditions of a tendency toward equilibrium would not be present. "Chiselling" would, by definition, be eliminated and the conditions leading to it (incentive plus opportunity to do it undetected) would be limited to the boundary-points between different producers' selling areas.

A variant permitting limited freight absorption would make the individ-

ual demand curves steeper and more indefinite and uncertain, leading to uncertainty whether a price reduction would be met. It might also leave substantial room for "chiselling." In both this and the preceding case, the outcome would vary with the geographical facts of each particular industry. Neither can safely be regarded as a universally workable, *a priori* formula.

Finally, we may turn to quality products, where there are sloping individual demand curves and considerable uncertainty whether, or to what extent, a given reduction of price will be met. Here it is worth while distinguishing degrees of quality differential. There is the extreme degree, in which the individual producer's product has a rather steep demand curve and will stand a very considerable price differential for a long time. This approximates the condition of monopoly. In some cases, where the customer is a poor judge of quality, this kind of situation can apparently be built up by sheer advertising.

But there is also the case of more moderate quality differentials, or those of which the consumer is better informed. Here the individual demand curve is flatter, especially if a moderate time is allowed for the consumer to find out what quality is being offered in return for any given price differential. It seems that some of the healthiest cases of workable competition in large-scale industry are of this type. Automobile production is generally regarded as a fairly workable example. And in the case of tires, price competition appears to be even stronger, though tires are a quality product, and therefore come under the head of "monopolistic competition."

As to directions in which to look for possible improvement in the future, it may be worth considering the possibility that technical progress may bring about still closer and more general substitution; and also that the increased use of specifications, and more widespread knowledge of them, may help to bring more of these substitutes, or price-insensitive quality differentials, within the range of moderate and price-sensitive differentials. This would increase the number of industries which, despite large-scale production, have the characteristics of fairly healthy and workable imperfect competition, rather than those of slightly-qualified monopoly. In such cases, one may hope that government need not assume the burden of doing something about every departure from the model of perfect competition.

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## SCHUMPETER'S BUSINESS CYCLES[1]

The scope of this monumental treatise may be indicated by a brief review of its chapters, classified here, with some violence to the unity and interpenetration of approaches in the book itself, as introductory, theoretical, historical, and statistical. The introductory chapter discusses business situations as they are apprehended by the business-man; distinguishes groups of external factors that affect economic change; lists the statistical series that may be used advantageously in continuous observation of the business conjuncture; and ends with the expected conclusion that empirical linking of factors and symptoms, as reflected in time series and other data, is insufficient for the understanding of economic change, since observation of actual economic processes cannot distinguish between interwoven causes and effects. To make causal analyses a theoretical apparatus is indispensable.

This theoretical apparatus is presented in chapters 2 through 4. Chapter 2 deals with equilibrium and the theoretical norm, *i.e.,* with the stationary economy. Chapter 3 presents the entrepreneur, the innovation, and the banking system—the triple alliance that contributes a strategic impetus to economic evolution. Chapter 4 comprises the crux of Professor Schumpeter's theory of business cycles, indicating how the behavior of entrepreneurs provides the primary model for use in the study of business cycles; how this primary model is complicated by consideration of secondary factors (errors, propagation through the credit system, etc.), and of the various types of cycles to which the primary and secondary factors give rise. These three chapters are to a large extent a summary of Professor Schumpeter's earlier writings on the nature of a stationary economy and the theory of economic change. But in chapter 2 comments on imperfect competition take account of recent developments in the field; and in chapter 4 business-cycle theory is expanded and extended materially beyond the somewhat bare statement of it in Professor Schumpeter's earlier writings.

Chapter 5 in Volume I discusses the bearing of the theoretical model upon the measurement of cycles in time series. Chapters 8 through 13 in Volume II deal with the behavior of various economic quantities in Great Britain, the United States, and Germany, for the pre-war period as represented by annual data. The successive chapters discuss the general price level, physical quantities (total) and employment, prices and quantities of individual commodities, expenditures and wages, the rate of interest, the central credit market and the stock exchange. These chapters may be termed statistical, although this does not mean that they present a detailed statistical analysis of cycles in the various aspects of the economic system. In these chapters there is more of theoretical and qualitative dis-

[1] *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process,* by JOSEPH A. SCHUMPETER. Vols. I and II. (New York: McGraw-Hill. 1939. Pp. xvi, 448; ix, 647. $10.00.)

cussion than of quantitative analysis; and they may be classified as statistical only by comparison with the other parts of the treatise.

Chapters 6 and 7 in Volume I present historical outlines of economic change in the three countries mentioned, for the years from 1787 to 1913—outlines concerned with the dating of two of the three cycle types that are distinguished on the basis of historical evidence, and with the recording of the more outstanding innovations with which the cycles are associated. Chapters 14 and 15 in Volume II contain a detailed discussion of economic changes from 1919 to date. These four chapters may be characterized as historical, although the last two, which deal with recent years, may be alternatively viewed as an application of all three types of approach to the post-war decades. The recent years are discussed much more intensively and comprehensively than pre-war years, the last two chapters accounting for 300 of the 1,000 pages in the two volumes.

This outline of the scope of the treatise suggests that any thorough summary of its contents would exceed the limits of the present review. Such a summary would be exceedingly difficult because of the character of Professor Schumpeter's discussion. Some of the chapters, as already indicated, are themselves summaries of the author's earlier writings, and would need expansion rather than condensation. Other parts, especially those classified above as historical, are running commentaries upon specific situations, with a wealth of allusions, incisive sidelights, references to existing literature, and theoretical suggestions. Such discussion cannot be summarized effectively. In still other parts, the author's meaning is elusive in that the reader is uncertain what limits of confidence Professor Schumpeter assigns to his statements and what in detail is the basis upon which they are made—a comment of particular application to the discussion of the dating of cycles and the presence or absence of cycles in a given series.

One must therefore select for review only a few of the numerous problems treated in the two volumes. The presentation below deals with three topics that seem to the writer to be of wide bearing and to call for critical evaluation: (a) the relation between distribution of entrepreneurial ability and the cyclical character of economic change; (b) the four-phase scheme of the business cycle and its bearing upon statistical analysis; (c) the three types of cycles distinguished. I shall first attempt to present Professor Schumpeter's view on these three topics, and then formulate the questions which, in my view, are raised by his discussion.

To Professor Schumpeter, business cycles are pulsations of the rate of economic evolution. Economic change in general is attributed to three groups of forces: external factors, for example, the demand of governments for new military weapons; the factor of growth, by which the author

means the continuous gradual changes in population and in the volume of savings and accumulation, changes that do not require drastic shifts in the combination of productive factors and thus may be attained by the ordinary, run of the mill economic agent addicted to an habitual and adaptive type of activity; and innovations which represent material changes (or as Professor Schumpeter defines them, changes of first order) in the production functions. It is innovations that are of strategic importance in the evolution of capitalist economy, innovations that are usually introduced by new rather than by old firms, by new men rather than by those who already occupy prominent niches in the functioning system.

Business cycles are recurrent fluctuations in the rate at which innovations are introduced into the economy, in the intensity with which entrepreneurs exercise their *sui generis* function of overcoming obstacles to new combinations. The reason for this discontinuity in the rate of innovations and in the intensity of entrepreneurial endeavor, of the bunching of innovations at one time and their comparative scarcity at others, lies in the distribution of entrepreneurial ability. This ability to dare, to initiate, to overcome obstacles to innovations is, like many other abilities, distributed along a curve which suggests that there are few individuals endowed with such ability to any great degree and many who are equipped only to initiate and follow the pioneering efforts of the few. If then we envisage, in a state of equilibrium, the action of the first entrepreneur, one of high ability, we shall see that his action will be followed by a swarm of imitations, increasing in volume as time passes and as the innovation becomes a more and more accepted pattern of action.

This uprush of innovation, accompanied by expanding credit, rising prices, rising interest rates, a relatively constant volume of total output but usually a shift in favor of producers' goods, constitutes the period of rise in the first approximation to the business cycle. It terminates as soon as the disturbance of the equilibrium has proceeded far enough to upset the existing relations of prices, costs and quantities, thus making it impossible to formulate rationally calculated plans for the future. This terminus is reached all the sooner because innovations are usually concentrated at any given time in one or few industrial areas, and the increase in risk and uncertainty is made more effective by the exhaustion of innovation opportunities. At the turn, the rate of innovation slackens and a period of readjustment ensues in which entrepreneurs take stock and the economy recedes to a new equilibrium level, a level which both growth and innovations make higher than that from which the expansion started. During this period of recession credit volumes, prices and interest rates decline but total output is likely to average larger than the preceding prosperity.

This first approximation, the primary model, thus accounts for a two-phase cycle, a departure upward from equilibrium level and a recession

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to a new equilibrium level. But conditions under which entrepreneurial activity takes place in reality must next be considered: the errors of forecast; the speculative tendencies of individuals; the thousand and one peculiarities of economic institutions that are likely to prolong and exaggerate a movement once initiated. These surface factors, which, in Professor Schumpeter's view, often claim the attention of business-cycle students to the exclusion of the fundamental process of innovation, may and do intensify the rise during the prosperity phase beyond the level to which it would have been carried by the stream of innovations proper; and during recession they reënforce the deflation, carrying it often below the equilibrium level into depression. When this occurs, the economy returns to equilibrium whenever the forces of depression spend themselves, a point determined largely by the peculiarities of the secondary factors that produce the abnormal contraction. But the equilibrium reached by recovery is not necessarily identical with that which would have been attained had the depression not taken place.

The combination of the first and second approximations yields a four-phase cycle of prosperity, recession, depression, and revival. The upper turning point is determined essentially by the primary model, whereas the revival point is determined largely by secondary factors. But whatever the difference in the causation of prosperity and recession as over against depression and revival, the four-phase model of the cycle must constitute the paramount guide in the statistical study of time series. Cyclical units should be defined not from trough to trough or peak to peak but from the beginning of prosperity, the point where the series begins to rise above the normal level to the end of revival, the point where the series again reaches the new normal. Professor Schumpeter dates the terminal points of the cycles that he distinguishes in accordance with this rule, and advocates for time-series analysis a method, originally proposed by Ragnar Frisch, that calls for establishing points of inflection. Under certain conditions these points of inflection are in the neighborhood of equilibrium levels and their establishment will thus serve to ascertain the terminal dates of the cycles, if not the turning points that divide prosperity from recession and depression from revival. Since inflection points suggest equilibrium levels in cyclical movements only if the rate of cyclical rise or decline diminishes as the curve pulls away from the equilibrium line, Professor Schumpeter accepts this condition as consonant with the theoretical significance of normal levels.

Neither the primary, nor the secondary, model implies necessarily one type of cycle only, *i.e.,* a cycle of approximately the same duration and intensity. On the contrary, differences in the magnitude of various innovations suggest that there may be several kinds of cycles differing in duration and in amplitude as the innovations with which they are associated differ

in magnitude and the time they require to attain their proper place in the economy. Presumably the same is true of the secondary factors: they may and do differ with reference to the span of time during which they produce their exaggerating effect upon expansion and liquidation. It is thus theoretically plausible to expect cycles of varying duration and intensity, their types and their interrelations to be determined largely by observation.

Professor Schumpeter finds that in order to account for the cycles that can be observed historically and statistically during the last century and a half three types of cycles should be distinguished: long waves of about fifty years in duration (Kondratieffs); intermediate waves of about eight to nine years in duration (Juglars); and short waves of about forty months in duration (Kitchins). Unfortunately nowhere in the two volumes is there a combined chronology stating the terminal dates of the various types of cycles distinguished by Professor Schumpeter for the three countries with which he deals in his historical and statistical sections. But the historical outlines in Volume I are concerned with establishing the Kondratieffs and the Juglars in the three countries before the World War; and in the detailed discussion of the years since 1919 there are a few specific indications of the dates of some Kitchins.[2]

The concurrence of these three types of cycles, each christened by the name of the economist who was chiefly responsible for claiming validity for it, accounts, according to Professor Schumpeter, for the diversity in the duration and amplitude of cycles observed in time series; and it explains why some "depressions," such as those of 1825-30, 1873-78, and 1929-34, were so long and so deep—a result of coincidence in phase of at least two of the three types of cycles. But all three types of cycles are due to the same fundamental set of causes, described by the primary model; in all we should expect four or two phases as the secondary factors are or are not sufficiently

[2] I have attempted to construct a chronology of the Kondratieffs with the following results:

| Prosperity | Recession | Depression | Revival |
|---|---|---|---|
| *Industrial Revolution Kondratieff, 1787-1842: Cotton Textile, Iron, Steam Power* | | | |
| 1787-1800 | 1801-1813 | 1814-1827 | 1828-1842 |
| *Bourgeois Kondratieff, 1842-1897: Railroadization* | | | |
| 1843-1857 | 1858-1869 | 1870-1884-5 | 1886-1897 |
| *Neo-Mercantilist Kondratieff, 1897 to date: Electricity, Automobile* | | | |
| 1898-1911 | 1912-1924-5 | 1925-6-1939 | |

The dates of the first and second Kondratieff are established from the discussion for Great Britain; that of the third from the discussion for the United States. The specific dates for the three countries are presumably somewhat different, but the differences are likely to be minor. It should also be noted that Professor Schumpeter considers that the first Kondratieff is not very clearly shown in Germany. This table above was checked by Professor Schumpeter who has kindly suggested a few changes in its original version.

Professor Schumpeter also provides dates for Juglars. They are presented as roughly corresponding to the dates in Thorp's *Business Annals*, with due allowance for the difference in terminology.

effective to produce depressions and revivals. As to the relations among these three types of cycles, two observations are made by Professor Schumpeter. First, the theoretical model requires that "each Kondratieff should contain an integral number of Juglars and each Juglar an integral number of Kitchins" (p. 172). The immediate consequence of this is that the first years in the prosperity phase of each Kondratieff coincide with Juglar and Kitchin prosperities; and the same is true of the immediately preceding revivals. Second, "barring very few cases in which difficulties arise, it is possible to count off, historically as well as statistically, six Juglars to a Kondratieff and three Kitchins to a Juglar—not as an average but in every individual case" (p. 174). This empirical conclusion, however, is not called for by the theoretical scheme; indeed the latter would lead us to expect irregularity in the number of the shorter type cycles comprised within each cyclical unit of longer duration.

This summary, bare and oversimplified as it is, reveals the significance of Professor Schumpeter's theoretical scheme and empirical findings. The close connection in this scheme between business cycles and the general process of evolution of capitalist economy; the direct bearing of the theoretical model of the cycle, with its equilibrium levels and its four phases, upon the statistical analysis of time series; the specificity of the three-cycle scheme, in the duration, interrelation and concurrence of the three cycle-types—all contribute to an impression of a well integrated intellectual structure that elegantly spans the gap between controlled imagination and diversified reality.

But further reflection and even a partial scrutiny of the evidence presented in the two volumes raise a host of crucial questions and disturbing doubts. In selecting some of these for discussion, we may begin with the association claimed to exist between the distribution of entrepreneurial ability and discontinuity in the making of innovations—in other words, their "bunching." What precisely is the necessary connection between scarcity at any given time of high entrepreneurial ability (and the plenitude of imitators) and the bunching of innovations? Given an infinite supply of possible innovations (inventions and other new combinations), why need entrepreneurial genius defer the next pioneering step until his preceding one has been so imitated and expanded that the upsetting of the equilibrium stops even him in his tracks? If imitators are ready to follow as soon as the entrepreneurial genius has proved that the innovation is successful, the disturbance of equilibrium at that time is certainly not sufficient to bar this genius from turning to new feats and thus initiating an uprush in another industry. Why should we not conceive these applications of high entrepreneurial ability, whether represented by one man or several, as

flowing in a continuous stream, a stream magnified in a constant proportion by the efforts of the imitators?

A close reading of Professor Schumpeter's text, both in this book and in his earlier treatise on the *Theory of Economic Development,* indicates that he expects high entrepreneurial ability to pause after the innovation and descend to the lower level of its imitators. The theory definitely calls for discontinuity *over time* in the operation of entrepreneurial ability. But such discontinuity cannot be derived from a distribution of entrepreneurial ability *at any given moment of time,* except on one assumption—namely, that the ability called for is so scarce that it may be completely absent during some periods of time while present at others. But this implies cycles in the supply of entrepreneurial ability, whether the supply be conceived in terms of individuals or of phases in the life of various individuals. I am not sure that Professor Schumpeter would view this assumption as valid.

Further reading and reflection suggest two possible alternative explanations of the bunching of innovations. The first is that *by definition* an innovation so disturbs existing economic relations that its introduction on a significant scale (*i.e.,* by the first entrepreneur plus the imitators) will necessarily prevent any other innovation from being successful so long as a process of readjustment has not taken place. This answer means, of course, that an innovation, by definition, is tantamount to a two-phase cycle, *i.e.,* it is defined as the kind of change that produces, upon its introduction, a phase of prosperity and of recession. And correspondingly, an entrepreneur *sui generis* is one who by definition introduces innovations that by definition result in a two-phase cycle. Hence by definition there is a necessary association between two-phase cycles and the *existence* of entrepreneurs. This, however, is such an obvious tautology as to be inacceptable as a significant interpretation or extension of Professor Schumpeter's position.

The second answer, suggested by Professor Schumpeter's references to the concentration of innovations in restricted industrial areas and by the emphasis in his historical discussion of technological changes, is that the discontinuity or bunching in the rate of innovation rests essentially upon discontinuity or bunching in the supply of possible new combinations, particularly of technological inventions. This, in essence, assumes cyclical fluctuations in the rate at which producers of the technical basis for innovations contribute to the stock of possible new combinations from which entrepreneurs can choose. Thus, it may be said that in the last quarter of the eighteenth century in England there were several major inventions (cotton textiles, iron and steel, steam engine); that thereafter it was not until the 30's of the nineteenth century that another big group of inventions, connected with steam railroads, became accessible to the entrepreneur; and that as a result we have a two-phase cycle of prosperity in the last

quarter of the eighteenth century and of recession in the next quarter.

Whether or not this be a proper extension of Professor Schumpeter's theory, the argument that technological and other opportunities for economic innovation are not necessarily continuous over time has some plausibility. There may be periods of hiatus with no big potential change on hand to stimulate and motivate the driving power of entrepreneurial genius. But this generalization, viewed as a basis for a primary model of business cycles, is subject to severe qualifications. Discontinuity of opportunity can be assumed only with reference to the most momentous innovations such as steam power, electricity, etc., *i.e.,* innovations that bear upon Kondratieff cycles. We can hardly expect significant fluctuations in the stock of innovation opportunities of the type that are associated with the Juglar or the Kitchin cycles. Furthermore, even with reference to the major innovations that may be associated with fifty-year spans, there is some indication that the long lapse between the appearance of the inventions is itself partly conditioned by the functioning of the economic system. For example, we may say that electricity did not become available sooner because it had to wait until the potentialities of steam power were exhausted by the economic system and until the attention of inventors and engineers was ready to be diverted to the problems of electricity. If this is so, there may be discontinuity in the *appearance* of inventions, but there is no necessary time lag between those major inventions as sources of significant economic innovations. Thus, even for application to a primary model of the Kondratieff cycle the assumption of discontinuity of technical opportunities would have to be closely scrutinized in the light of historical evidence.

The queries raised above should not be interpreted as denying the importance of entrepreneurial genius or the jerky character of economic evolution. They stem from a critical consideration of one point only, the association between distribution of entrepreneurial ability and cyclical fluctuations in the rate of innovation, an association that appears crucial in Professor Schumpeter's business-cycle theory. Nor need it be emphasized that the discussion above applies exclusively to the first approximation, the primary model, and neglects completely the secondary factors. It is the former that Professor Schumpeter stresses as providing the fundamental explanation of business cycles, and it is the former that contains his specific contribution. The term "secondary factors" subsumes the variety of forces treated in many other business-cycle theories, and there is a tendency in Professor Schumpeter's treatise to slight them, considering them at best as influences inferior to the factors cited in the first approximation.

We may pass now to a consideration of the four-phase model of a cycle conceived in terms of departures from an equilibrium line, and the bearing of this model upon statistical analysis of time series. The procedure

preferred by Professor Schumpeter involves establishing points of inflection, first in the original series, then in the line that passes through the first series of inflection points and so on, successively decomposing the total series into several cyclical lines. Professor Schumpeter himself recognizes the difficulties involved in the application of this procedure (see page 211, vol. I). There is first the delicate problem of smoothing the series so as to eliminate the effect of erratic fluctuations on the second order differences used to establish inflection points. A more serious difficulty arises because the assumption that the inflection points are in the neighborhood of equilibrium levels implies a specific pattern of cyclical movements; and there is no ground for expecting cyclical fluctuations in actual series to conform to this pattern.

For these reasons Professor Schumpeter does not recommend the method for general application and recognizes it only as a first approximation and a far from infallible guide. He presents applications of this method in his book to just two series: one used for purely illustrative purposes in chapter 5, a monthly series on revenue freight loadings from 1918-1930 (Chart III, page 218) and the other used for analytical purposes in chapter 8 (Chart IX, page 469), an annual series of wholesale prices in the United States from 1790 to 1930. For the rest, statistical analysis is confined to a graphic portrayal of the series, sometimes reduced to successive rates of percentage change, sometimes smoothed by a simple moving average, and in one case with a fitted trend curve and fitted cycles. The preponderant number of series are, however, left in their original form and the statistical analysis for almost all of them is in the form of qualitative statements of quantitative import, based upon observation of the charts.

The difficulties encountered in the matter of inflection points and the paucity of formal statistical analysis in the treatise lead to a doubt whether Professor Schumpeter's concept of equilibrium and of the four-phase model of business cycles are such as to permit of application to statistical analysis. This doubt is strengthened when it is considered that the concept calls for segregating movements of the equilibrium line caused by external factors and growth from movements caused by innovations. Hence the usual lines of secular trend, drawn so as to bisect the area of cyclical fluctuations, are not acceptable from the viewpoint of Professor Schumpeter's theoretical model. This model requires, as I see it, that the line underlying any given cycle should express at any given time only the level that can be maintained by the activity of the inert adaptive character not properly dignified by the term entrepreneurial. To segregate this level from the slant given to the line by the cumulation of innovations is indeed difficult.

By refusing to deal with secular trend lines based upon formal characteristics (irreversibility, smoothness, etc.) Professor Schumpeter sacrifices the possibility of basing the distinction between long-term movements and

cyclical variations upon observable criteria. By refusing to accept peaks and troughs as guides in the determination of cycles he scorns the help provided by that statistical characteristic of cycles in time series. One cannot well escape the impression that Professor Schumpeter's theoretical model in its present state cannot be linked directly and clearly with statistically observed realities; that the extreme paucity of statistical analysis in the treatise is an inevitable result of the type of theoretical model adopted; and that the great reliance upon historical outlines and qualitative discussion is a consequence of the difficulty of devising statistical procedures that would correspond to the theoretical model.

The validity of the three-cycle schema, the last topic under discussion, hinges largely on the nature of the historical evidence and qualitative analysis. As already indicated, Professor Schumpeter does not claim for the Kondratieff-Juglar-Kitchin combination any necessary connection with his theoretical model. But he does present it as a schema called for by historical reality, as a classification fully justified by the way it describes successive business cycles since the last quarter of the eighteenth century in the three countries under observation. Yet, in spite of numerous references to this classification in the historical outlines, in spite of the determinate way in which its validity is claimed in the treatise, there remain serious doubts that such validity has been demonstrated or could be demonstrated with the type of materials and analysis employed by Professor Schumpeter.

The cycle is essentially a quantitative concept. All its characteristics such as duration, amplitude, phases, etc., can be conceived only as measurable aspects, and can be properly measured only with the help of quantitative data. Furthermore, the distinction between cycles and irregular movements traceable to external factors can be made at all adequately only if the successive cycles are measured and averages are struck in which the influence of external factors can be reduced, if not eliminated. This does not mean that observation of cycles on the basis of qualitative information is neither possible nor valuable. For whatever quantities reflect cyclical changes, these changes result from discrete acts by individuals or nonpersonal units in the social system. Some of these discrete acts may be recorded singly and separately in historical records; of others a crude count or impression can be derived from contemporary qualitative reports. The study of such qualitative data in conjunction with statistics is indispensable for a close analysis of the latter. And the former without the assistance of the latter can often give a crude idea of the succession of cyclical phases and of very striking differences in amplitude between one cycle and another. But it is difficult to see how qualitative records can yield much beyond a suggestion of dates of peaks and troughs of a single type of cycle; how

one could, on the basis of historical records alone, distinguish the dating and phases of several concurrently existing cycle types.

The question raised bears most upon the establishment of the Kondratieff cycles. To establish the existence of cycles of a given type requires first a demonstration that fluctuations of that approximate duration recur, with fair simultaneity, in the movements of various significant aspects of economic life (production and employment in various industries, prices of various groups of goods, interest rates, volumes of trade, flow of credit, etc.); and second, an indication of what external factors or peculiarities of the economic system proper account for such recurrent fluctuations. Unless the former basis is laid, the cycle type distinguished cannot be accepted as affecting economic life at large—it may be specific to a limited part of the country's economic system. Unless the second, theoretical, basis is established there is no link that connects findings relating to empirical observations of a given type of cycles in a given country over a given period of time with the broader realm of already established knowledge.

Neither of these bases has ever been satisfactorily laid for the Kondratieff cycles. Kondratieff's own statistical analysis refers largely to price indexes, interest rates, or volumes of activity in current prices—series necessarily dominated by the price peaks of the Napoleonic wars, of the 1870's (not unconnected with the Civil War in this country), and of the World War. The prevalence of such fifty-year cycles in volumes of production, either total or for important branches of activity, in employment, in physical volume of trade, has not been demonstrated; nor has the presumed existence of these cycles been reconciled with those of a duration from 18 to 25 years established for a number of production series in this and other countries. Nor has a satisfactory theory been advanced as to why these 50-year swings should recur: the explanations tend to emphasize external factors (inventions, wars, etc.) without demonstrating their cyclical character in their tendency to recur as a result of an underlying mechanism or as effects of another group of external factors of proven "cyclicity."

These doubts as to the validity of the Kondratieff cycles are not dispelled by the evidence Professor Schumpeter submits. The part of his discussion that deals with qualitative, historical evidence leaves unanswered two crucial questions. The first refers to the particular aspect of activity that is considered as revealing the Kondratieff cycles and is thus observed to establish the dates. Such observation obviously cannot relate to economic activity at large, for qualitative data on the course of general economic activity necessarily deal with short-term changes and would not serve to differentiate the underlying Kondratieffs from the much more clearly marked shorter cyclical swings. One must, therefore, in order to set the dates of Kondratieffs, choose some activity particularly sensitive to these long swings.

The natural choice would be the economic innovations whose introduction forms the substance of Kondratieff prosperities. But as Professor Schumpeter observes, such innovations usually make their appearance before the Kondratieff that is associated with them. Thus steam railroads began to be constructed before the railroadization Kondratieff (*i.e.,* before 1843); and electricity was well known before the Kondratieff associated with it began in 1898. One then tends to infer that a Kondratieff begins when the underlying major innovation is being introduced on a large scale and at a rapid rate. But does this mean that the prosperity of a Kondratieff is the period at which the introduction of the innovation displays the maximum absolute or percentage rate of increase?[8] One searches in vain for a definite formulation of the criterion by which historical evidence is analyzed to distinguish the Kondratieff cycles from the Juglars and used to establish for the former the terminal dates and also those of the four phases.

The second question raised by the discussion of the Kondratieffs in the light of historical evidence refers to the treatment of "accidental" external factors and of transient secondary influences. As Professor Schumpeter himself recognizes, any given cyclical turn, in any observable type of cycle, can be attributed to one or several specific historical events, *i.e.,* to some transient accidental circumstances in the neighborhood of the turn. And yet it should be possible in the analysis to distinguish between these accidental concomitants and the underlying cyclical swings. As already indicated, this segregation is accomplished in statistical analysis by averaging or similar devices. In the treatment of qualitative, historical evidence the task is more difficult. It might be facilitated by a classification of various types of factors that would distinguish in advance cyclical factors from others; but even then the concurrence in historical reality of accidental and cyclical factors might necessitate what is essentially a quantitative analysis. It is not clear how Professor Schumpeter deals with the problem. In some cases he recognizes an "accidental" disturbance that produces what appears to be a cyclical turn, but does not disregard this turn as conforming with his schema. In other cases he attributes the departure of reality from the hypothesis to accidental historical conditions (notably in explaining why prices continued to decline in the United States after 1842 when there was supposedly a Kondratieff prosperity). The opportunity in such treatment for personal judgment is perhaps inevitable in the use of qualitative data; but the unfortunate consequences for the effort to establish the validity of the Kondratieff cycles and their dates are not diminished thereby.

As to the statistical basis for the recognition of Kondratieff cycles, Professor Schumpeter's approach, for reasons already indicated, can yield little

[8] This criterion would not fit experience in the United States, since the percentage rate of growth in the additions to railroad mileage was at its maximum before 1842; and the absolute rate of addition was at its maximum long after 1860.

of value. The failure to follow articulate methods of time series analysis reduces the statistical methods to a mere recording of impressions of charts, impressions with which it is often difficult to agree. To quote but two instances. (1) In Charts XII and XIII (pp. 486 and 487) Professor Schumpeter presents data on pig iron consumption (annual) for the United States, the United Kingdom and Germany for the period roughly from 1857 to 1913; and comments that the lines reflect "all three cycles . . . very well" (p. 485). But I, for one, cannot detect any traces of Kondratieffs in the lines either for Germany or for the United Kingdom; and would record two long cycles in the American series, one from 1857 to 1875 and the other from 1875 to 1895, rather than a single Kondratieff swing. (2) Chart XLII presents a monthly index of industrial production for the United States from 1897 to 1935. Professor Schumpeter then comments that the movement during 1898-1912 shows a rate of increase lower than that from 1922 to 1929; and this is cited to support the existence of a Kondratieff prosperity (1898-1912), as contrasted with a subsequent Kondratieff recession that is assumed to terminate in 1925.[4] But a glance at the chart suggests to me that the line from 1898 to 1912 is appreciably steeper than the line that would characterize the post-war decade; and that any higher rate that might be shown by a line drawn from 1922 to 1929 would be due exclusively to the position of the terminal years in the shorter-term cycles. Whichever of these judgments of the charts is correct, the ease of disagreement, of which there are many other instances, is an eloquent testimony to the insufficiency of the crude statistical procedures followed in the treatise to provide a basis for establishing cycle types of so elusive a character as the Kondratieffs.

The Kitchins are too short and perhaps too mild to be discernible with the available qualitative historical evidence, especially for the years before 1919. Hence the distinction between the Juglars and the Kitchins is based in the treatise largely upon statistical evidence, *i.e.,* again largely upon the impression conveyed by the charts. The series used for the pre-war years are almost exclusively annual, and the comments refer to the existence of the Kitchins rather than to their dates. Only for the years since 1919 do the plenitude of quantitative and detailed data and the emphasis that Professor Schumpeter places upon a thorough discussion of changes during these recent two decades, lead him to date the Kitchins and use them together with the Kondratieffs and Juglars to explain the successive economic conjunctures in the three countries under his observation.

The evidence brought together in the two volumes, and still more other available measures of cyclical behavior, suggest with some plausibility the

[4] To be sure, Professor Schumpeter deprecates the significance of this chart as evidence of Kondratieff phases; but the statistical evidence that he submits for Kondratieffs consists essentially of similar items, each of them qualified.

desirability of distinguishing more than one type of cycle, or recognizing in addition to the shortest unit of cyclical swing observable in the economic system others appreciably longer. But whether the distinction should be drawn in the specific form suggested by Professor Schumpeter is still an unanswered question. Annual series provide too crude a guide for establishing cycles as short as the Kitchins. A mere observation of "notches" on the surface of Juglars, or even of prominent short-term oscillations would not suffice: either result could be produced by random variations, and these short-term variations would have to be analyzed to demonstrate that they could not be due to mere chance. Hence only monthly series could be used as statistical evidence of Kitchins. But the series presented in the treatise cover too short a period to provide sufficient basis for the generalization that Kitchins existed in the past.[5] And no direct evidence seems to be presented to confirm the generalization so explicitly made that it is possible to count three Kitchins for every Juglar.

The critical evaluation above of what appear to be important elements in Professor Schumpeter's conclusions, viewed as a systematic and tested exposition of business cycles, yields disturbingly destructive results. The association between the distribution of entrepreneurial ability and the cyclical character of economic activity needs further proof. The theoretical model of the four-phase cycle about the equilibrium level does not yield a serviceable statistical approach. The three-cycle schema and the rather rigid relationship claimed to have been established among the three groups of cycles cannot be considered, on the basis of the evidence submitted, even tolerably valid; nor could such validity be established without a serviceable statistical procedure. The core of the difficulty seems to lie in the failure to forge the necessary links between the primary factors and concepts (entrepreneur, innovation, equilibrium line) and the observable cyclical fluctuations in economic activity.

And yet this evaluation does injustice to the treatise, for it stresses the weaknesses of the discussion and overlooks almost completely its strength. Granted that the book does not present a fully articulated and tested business-cycle theory; that it does not actually demonstrate the intimate connection between economic evolution and business cycles; that no proper link is established between the theoretical model and statistical procedure; that historical evidence is not used in a fashion that limits the area of personal judgment; or that the validity of three types of cycles is not estab-

[5] It is also to be noted that for recent years economic conditions in this country dominated those of Europe to an extent much greater than before the war. It is also in this country that the cycle in general business conditions was observed to be shorter than in England or Germany. Hence an analysis, confined to only the recent decades, would run the danger of ignoring the possible absence of Kitchins in England and Germany during the nineteenth century.

lished. Yet it is a cardinal merit of the treatise that it raises all these questions; that it emphasizes the importance of relating the study of business cycles to a study of the underlying long-term movements; that it calls for emphasis on the factors that determine the rate and tempo of entrepreneurial activity; that it demands a statistical procedure based upon a clearly formulated concept of the business cycle; and that it valiantly attempts to use historical evidence. In all these respects the volumes offer favorable contrast with many a book published in recent years on business cycles, whether of the type in which abstract reasoning is unsullied by contact with observable reality or of the opposite category in which mechanical dissection of statistical series is the sum total of the author's achievement.

Furthermore, both the summary and the critical discussion above necessarily fail to show the achievements of the treatise in providing illuminating interpretations of historical developments; incisive comments on the analysis of cyclical fluctuations in various aspects of economic activity; revealing references to an extraordinarily wide variety of publications in directly and indirectly related fields; thought-provoking judgments concerning the general course of capitalist evolution. It is difficult to convey the flavor of the book except by saying that in many of its parts it reads like an intellectual diary, a record of Professor Schumpeter's journey through the realm of business cycles and capitalist evolution, a journal of his encounters there with numerous hypotheses, diverse historical facts, and statistical experiments. And Professor Schumpeter is a widely experienced traveller, whose comments reveal insight combined with a sense of reality; of wide background against which to judge the intellectual constructs of men and the vagaries of a changing social order.

Thus, whatever the shortcomings of the book as an exposition of a systematic and tested theory of business cycles, these shortcomings are relative to a lofty conception of the requirements such theory should meet. It is the cognizance of these requirements that makes the book valuable even to one who may not be interested in the author's comments on the various and sundry historical, statistical and theoretical matters. But these comments are of high suggestive value and should, if given circulation, prove effective stimuli for further theoretical, historical and statistical study of business cycles and economic evolution. It is my sincere hope that Professor Schumpeter's labor embodied in the treatise will be repaid by an extensive utilization of it by students in the field, aware though they may be of the tentative character of his conclusions and of the personal element in some of his comments and evaluations.

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# INTEREST RATES FOR HOME FINANCING

Prior to the present decade, the deficiencies of the financial system gave rise to uneconomical lending terms and to excessive rates of interest on home loans. The pronounced and continued upward sweep of the secular trend during the twenties deferred the inevitable consequences, but the ensuing crisis brought the shortcomings into sharp focus. The repercussions were national in scope and set into action various measures of reform to give relief to home owners. This paper presents a summary of the activities of the Federal Home Loan Bank System, the Home Owners' Loan Corporation, the Federal Savings and Loan System, and the Federal Housing Administration. The influence of these agencies on interest rates is discussed, followed by an analysis of the justification of the existing rate level. It is shown that present rates are no longer the result of free market activity but are governed primarily by the rate established on FHA insured loans. There is now some question of the adequacy of rates to cover the attending costs of home-financing institutions.

One of the most striking phenomena of the trade depression of the past decade is the trend of interest rates. It is difficult for many to accept the realities of the existing level, and hence it is often characterized as "artificial," "temporary," "unsound," etc. For the most part, this attitude is the result of an emphasis upon historical perspective rather than concentration upon the unusual conditions which have prevailed in recent years. It is commonly assumed that, with the correction of the existing abnormalities, interest rates will inevitably be adjusted. However, the uncertainties of the assumption cast doubt upon any early realization of the deduction made. Not only is this true because of the unknown duration of these so-called abnormalities, but, in addition, various controls which have been developed will likely continue to function over a much longer period.

The prevailing level of interest rates may also be questioned when related to the underlying forces of the demand for, and the supply of, capital. Many influences affecting these primary determinants of the cost of money encourage the conclusion that the present low level of interest rates is not justified in the light of economic conditions. Risks which are so comprehensive as to cause concern for the safety of the entire economy would seem to point in the direction of a rate sufficiently high to afford compensating protection for those who supply the capital. In the face of these abnormal risks, the rates of interest seem to be entirely inadequate.

As to the demand for capital, it is much more difficult to evaluate its vitality and persistency. There is much evidence of its potentiality where there is reasonable availability of funds at what is considered to be an attractive rate, accompanied by favorable terms of loan repayment. Evidence of possible demand is found in the development of various governmental lending agencies such as the Home Owners' Loan Corporation, the Reconstruction Finance Corporation, various agricultural lending groups, not to mention the indirect facilities provided by the Federal Housing Administration. Private lending institutions fail to display any great enthusiasm for accommodation of the borrowers financed through these

channels of government aid. It is assumed that the risks are abnormal.

Viewing the panorama of higher risks and prospective demand, it would be easy to reach the conclusion that current rates of interest do not reflect underlying conditions. But the reasons why such *a priori* anticipation does not develop into market reality are well known. In essence, they simmer down to deliberate and formulated governmental policy which establishes low rates of interest as a fundamental tenet of reform and recovery. To this end, cheap money and credit have been facilitated by various acts and policies. The means which have been used to convert this policy into operating practice run the gamut from grants for individual relief to central banking policy and direct lending.

Because of the influence of government, many are inclined to regard the existing rate structure as artificial and prescribed rather than natural or the result of orderly process. As a consequence, numerous observers declare that a rise in interest rates is inevitable. But it is likely that this view stresses unduly the familiar process of action and reaction and discounts the weight and persistency of the various forms of authoritarian intervention. Clearly, the more deep-rooted the latter becomes, the more controlling will be its influence, irrespective of its ultimate dependency upon desired elements of structural support. To be specific, the broad expanse of governmental authority is now sufficient to support for a long time the existing rate pattern either by subsidy or other form of diversion from the rest of the economy.

We may now turn from this general statement of applicability covering all interest rates to the more restricted discussion of rates in the field of home financing. This is a segment of the economy which has been given all too little recognition. Too seldom have we realized that the largest single block of private indebtedness is represented by mortgages on urban residential properties. Moreover, the fact that the cost of shelter absorbs from 20 to 25 per cent of consumer income must mean that expenditures for housing exert profound influences on economic conditions. Probably the scattered or atomistic character of home financing has precluded an appreciation of the larger part which it is bound to play as a whole.

Prior to the present decade, the facilities which had been developed to service home financing were undoubtedly inadequate in many respects. However, the pronounced and continued upward sweep of the secular trend concealed many of the shortcomings. Chronological perspective now enables us to recognize that rates of interest charged in earlier years appear high in relation to the purported security of the underlying asset, the usually accepted social desirability of home ownership, and the obvious necessity of shelter in one form or another. Among the reasons accounting for the comparatively high rates which were imposed upon residential financing are the following:

(1) *Dependence upon Local Sources of Capital.* While accurate statistics are not available to show the relative importance of the various financing media, reliable estimates indicate without question that the great bulk of the business was done by private individuals and building and loan associations. Necessarily, both obtained most of their funds from local sources. The absence of a financial mechanism which could tap the national money market curtailed the supply of funds and was in large measure responsible for the existence of unusually high rates.

(2) *Lending Plans.* While it is difficult to isolate the precise effect of financial mores upon prices and other economic factors, nevertheless, it is clear that the arbitrariness of lending plans did contribute to the unwarranted rates of interest. There was a general absence of a variable rate of interest, the practice being to charge a uniform rate to all borrowers. Similarly, custom usually restricted primary financing to an amount not in excess of 60 per cent of the appraised value. In most instances, this compelled the borrower to resort to some form of secondary financing where rates were unusually high.

(3) *Competition with Business Enterprise.* The attraction of capital for home-financing purposes also felt the test of competition from business enterprise. Business was expanding at such a rate as to give it a sort of prior lien on available funds. Investment in business was also preferred by investors and investment organizations because it entailed less servicing. As a result, it may be said that only a modicum of capital from the central money market became available for the financing of the nation's homes.

Aside from any program of government, it is clear that private enterprise on its own initiative and through its own means should be able to provide for more efficient financing of shelter. The type of coöperative action which would be required, however, is usually cumbersome and time-consuming when promoted by private sources. Such potential delay, combined with pressures arising from the chaotic condition of the mortgage market, caused the government to lend prompt assistance. Furthermore, it may be said that equally pressing was the request of private groups for various forms of governmental relief. In the background, there stood the demonstrated and satisfactory experience of financing agriculture under governmental auspices. On the whole, the Federal Land Banks, created in 1916, and the Federal Intermediate Credit Banks, organized in 1923, had succeeded in making a record which met the usual tests of business soundness. In a similar vein, it seemed desirable to coördinate the financing of urban homes. However, the pressure of the depression gave rise to a less coherent program than that formulated for agriculture. This is shown in the variety of facilities established to improve the home-financing process—namely, the Federal Home Loan Bank System, the Home Owners' Loan

Corporation, the Federal Savings and Loan System, and the Federal Housing Administration. All four groups were intended to be self-supporting. In addition, there are agencies, such as the United States Housing Authority and the present Farm Security Administration, which require subsidy. We may omit them from this discussion, thereby confining our study to those agencies which affect more directly private financing and which are relatively self-sustaining. Our analysis of each necessarily will be brief because we are concerned mainly with their effect upon the rate of interest rather than with an understanding of their detailed operations.

*Federal Home Loan Bank System.* The Federal Home Loan Bank System consists of twelve regional banks operating under the direction of a central Board of five appointees designated by the President and confirmed by the Senate. It was organized in 1932 primarily to provide reserve credit facilities for the accommodation of institutions engaged in thrift and home financing. This is accomplished through advances made by the regional banks to member institutions, at rates ranging currently from 1½ per cent for short-term loans to 3 per cent for long-term accommodation. Secured advances by the Federal Home Loan Banks are limited to an amount not in excess of 65 per cent of the unpaid balance, or 60 per cent of the value of the real estate securing the loan, and, where the loan has a maturity of less than six years, the limits become 50 per cent and 40 per cent, respectively. Mortgages may not be accepted as collateral if they exceed $20,000, if their maturity is longer than twenty years, or if they are more than six months past due, unless the debt is under 50 per cent of the value of the supporting real estate. By amendment to the original Act, the Banks are permitted to lend up to 90 per cent of the unpaid balance on loans insured under Title II of the National Housing act. Advances may also be made on direct or guaranteed obligations of the United States up to an amount not greater than their face value. Unsecured loans of one year may be made under certain conditions.

Funds to conduct the operations of the Banks have been obtained from the sale of capital stock to the government and member institutions ($165,718,950 now outstanding), deposits by member institutions (currently amounting to $29,616,685), and the sale of debentures in the open market. To date, debentures have been sold in the amount of $142,700,000, of which $48,500,000 are now outstanding. Debenture financing constitutes a connecting link between the larger money market and localities in need of funds for home-financing purposes. In addition, the flow of excess funds from one section of the country to another is accelerated through inter-bank deposits among the regional banks.

Structurally, the creation of such reserve banking facilities should permit accretions to the capital supply of local areas and contribute to lower rates of interest for residential lending. Moreover, it is intended that

changes in the rates of interest will be effected through the normal functioning of market activity. The Bank Board has no express authority to fix the rates charged by member institutions although it has resorted to moral suasion to bring about more economical financing. Section 5 of the Act sets a ceiling upon rates to be charged by member institutions at the lawful rate established by the individual states, or a maximum of 8 per cent where no legal rate is prescribed.

Reliable statistics are lacking to measure the precise influence of the Bank System upon the rate structure, but there is sufficient evidence to support the contention that a substantial downward revision has been effected. Much of the change has undoubtedly been prompted by the keen competition which has developed for residential loans but the Bank System has helped home-financing institutions to make the transition. As a result, a rate of 5 to 6 per cent to the home owner is not uncommon at present.

*Home Owners' Loan Corporation.* The Home Owners' Loan Corporation is also under the supervision of the Federal Home Loan Bank Board and was created in 1933 to provide more direct assistance than was possible under the Bank System. It was limited to the refinancing of distressed borrowers who were "unable to amortize their debt elsewhere." Accommodation of more than one million home owners in an amount of approximately three billion dollars had an immediate and pronounced effect upon home financing. Section 4 (d) of the Home Owners' Loan act vested authority in the Board to charge a rate not exceeding 5 per cent. With the exception of a few loans made on a cash basis at 6 per cent, the 5 per cent rate was in effect until October, 1939, when it was reduced to 4½ per cent.

It is impractical to appraise the ultimate economic soundness of the rates charged by this Corporation, because of the difficulty of forecasting possible losses. Any criterion of the adequacy of the rates charged should make allowance for the special character of the loans and other important conditioning factors. Loans were restricted to borrowers in distress, which necessarily means that the Corporation's portfolio consisted mainly of high-risk commitments. Also, as an agency created "to provide emergency relief," the HOLC was compelled to exercise a forbearance and leniency not typical of private lenders. In the light of these modifying influences, it is prudent to restrict observations of the Corporation's rate structure.

*Federal Savings and Loan Associations.* The home-financing industry of earlier years had suffered also because of a lack of homogeneity. Although engaged in the performance of a common function, the main participating institutions were known variously as building and loan associations, savings and loan associations, coöperative banks, and homestead associations. While federal savings and loan associations were authorized under the Home Owners' Loan act "to provide local mutual thrift institutions in which people may invest their funds and in order to provide for

the financing of homes," their creation incidentally served to standardize the name "savings and loan" and to establish a common form of organization and operation throughout the entire country.

The Act makes no reference to rates of interest which may be charged by federal associations, but there is reason to believe that their increased recognition and prestige should contribute to more economical financing. By enabling the industry to become better known, as well as by providing for desirable standardization of home-financing practices, it is reasonable to expect that institutions of the savings and loan type will be able to attract funds from the public at a lower rate—in turn passing the benefits along to the home owner.

*Federal Housing Administration.* Another act of legislation intended to relieve pressures overhanging the existing home debt, and especially to promote new residential construction, is the National Housing act passed in 1934. Specifically, the Act recites that it was "to encourage improvement in housing standards and conditions, to provide a system of mutual mortgage insurance, and for other purposes." The chief innovation is the provision of insurance of the loan risk. This protection was expected to stimulate shy capital into action as well as to encourage lending by institutions which had not previously entered the home-financing field on a large scale. The latter was particularly designed to induce commercial banks to enlarge the scope of their lending operations. The progress made in this direction is shown by the fact that, of the Title II insurance of $2,000,000,000 now in force, commercial banks account for more than 50 per cent.

The insurance of mortgage loans has provoked lively discussion as to its effect upon interest rates. First of all, on the theory that insurance washes out the risk differentials, a uniform rate is charged on insured loans. Precedent for such uniformity is found in other forms of insurance—such as life and fire insurance, where common rates are charged provided minimum standards are met. A second factor of significance is the rate of interest which is permitted. Section 203 (b) (5) gives the Administrator the authority to charge a rate (exclusive of certain other charges) not to exceed 5 per cent unless he finds certain unusual conditions in special areas, in which event he may charge not to exceed 6 per cent. Actually, the nominal rate of interest charged to date has not exceeded 5 per cent and in August, 1939, it was reduced to 4½ per cent. An insurance premium of ½ of 1 per cent (¼ of 1 per cent on loans up to $5,400 from February 3, 1938, to July 1, 1939) is added so that the minimum nominal rate is, in reality, 5 per cent at the present time, and 5½ per cent, formerly.

Such limitation of the interest rate takes on additional significance when related to the ratio of the loan to the property value and when considered in relation to the maturity of the loan obligation. As to the former, 80

per cent of the appraised value may be loaned where the principal indebtedness does not exceed $16,000, and up to 90 per cent where the amount is not greater than $5,400. In both instances, the loans must have a "maturity satisfactory to the Administrator" with a limit of twenty years for the 80 per cent loans and of twenty-five years for the 90 per cent loans. Justification for the more favorable terms given to the smaller loan category is primarily that of social expediency and is further supported by the stronger market for low-cost housing.

Reference to the National Housing act is restricted to loans made under Section 203, since for purposes of this discussion it is desirable to exclude any detailed statement of reconditioning and certain construction loans which are made under Title I, as well as loans for large-scale housing arising under Section 207, Title II. However, it may be said that in all categories there is a statutory limit restricting the rate which may be charged. It will be observed that the trend of legislation providing for housing on a non-subsidized basis gradually increased the scope of governmental influence and control over the interest rate. The Federal Home Loan Bank act of 1932 stipulated only a maximum legal rate which had long been recognized in state laws, or 8 per cent in the absence of such limitation; there followed the emergency financing of the Home Owners' Loan Corporation which permitted a rate up to 5 per cent; finally, the National Housing act established control over insured but private lending by fixing a maximum rate of 5 per cent, now set at 4½ per cent by regulation. It is difficult at this time to foresee any further rate adjustments.

*Nature of Interest Rate on Home Loans.* Having noted the various facilities and agencies which have been introduced to bring about more economical home financing, we may now turn to a consideration of its justification. This is all the more desirable since the rate of interest on home loans is no longer exposed to the full test of market action. Preliminary to this, however, it is important to distinguish between the popularly known nominal rate and the more significant effective rate of interest. Ordinarily, in financial parlance, the difference between the effective and nominal rate is caused by a spread between the contract rate and the rate which prevails in the market, or by other conditions which may cause an investment or loan obligation to sell at a price other than the principal balance.

In home financing, the term "effective rate" is used much more loosely, and is customarily interpreted as the total burden or overhead of carrying a loan. Thus, in addition to the cost of money, other incidental charges which are common in this field are included. The following illustration will give some indication of the possibilities in the case of an FHA or other loan for new construction where the rate of interest may be advertised as 4½ per cent.

| | |
|---|---|
| Interest charge | 4.5 per cent |
| Insurance fee | .5 |
| Appraisal fee | .3 |
| Initial service fee | 2.5 |
| Reasonably certain charges | 7.8 per cent |
| Additional possible charges: | |
| Brokerage fee | 2.5 per cent |
| Title examination | 1.0 |
| Credit report and miscellaneous | .2 |
| Total possible charges for first year | 11.5 per cent |

To determine the effective rate for the life of the loan, it is obviously necessary to spread the charges over the entire period. Thus, under a twenty-five year term, the effective rate would be less than in the case of a fifteen-year maturity. The logic of including many of these charges as a part of the cost of money is clearly open to question. For instance, the appraisal fee, the cost of title examination, and a part of the initial servicing fee, represent a cost for service which is distinct in character and not necessarily related to the loan itself. Nevertheless, practice has given currency to the inclusion of all such items. This means that the effective rate carries the connotation of the cost of the loan in its broadest sense rather than the limited concept of the cost of the money element alone.

There is also much variation in the type and in the amount of the fee levied for these miscellaneous services. Some lending institutions elect to charge no initial servicing fee at all; others may charge 1 per cent; but the maximum permitted on FHA loans is 2½ per cent on construction commitments and 1 per cent on refinancing loans. Lack of uniformity in the servicing fee and in the other incidental charges serves to retard the accurate measurement of effective rates and their comparison between competing institutions.

*Soundness of the Present Rate Structure.* The acid test of the present rate structure is whether it permits a self-sustaining operation. Some extremists take the position that this is immaterial because of the broad need for improved housing and that the condition is serious enough to warrant an outright subsidy. Moreover, it is pointed out that private institutions may escape the assumption of risk through the insurance of loans. However, such reasoning too often ignores the more important tests of soundness which are pertinent, irrespective of whether the activity be directed under government or private auspices. In the long run, regardless of whether the responsibility for the direction of any economy be private or public, there is a need to look to its self-supporting character. At least,

departure from this desideratum should be recognized in advance in order to provide intelligently for possible subsequent costs.

We may now apply certain criteria for the purpose of ascertaining the appropriateness of the prevailing rate on home loans. Five per cent may be said to be the most typical. Many large lenders are making loans at this rate and lower, and it becomes more or less of a standard by reason of FHA pronouncement. It will be recalled that the FHA has established a maximum rate of 4½ per cent to which may be added the ½ of 1 per cent insurance premium. Other incidental charges may be ignored because they are usually covered by specific assessment. The propriety and soundness of a 5 per cent rate may now be tested from the three following approaches: (1) sufficiency of the rate to absorb attending costs, (2) analysis of the underlying property risks, and (3) the ability of home-buyers to discharge the loan obligation.

In applying these tests, it is necessary to keep in mind the general character of the product being financed. Outstanding is the lack of standardization. Variations are found in the type of construction, the size of the house, the architectural design, and the quality and number of interior conveniences. In addition, geographical influences introduce many differences in the cost of labor and material. These variables definitely influence the development of low-cost housing, the area to which we shall direct our chief attention. Increasingly, housing policy recognizes the need for low-cost shelter; and recent lending operations indicate its adoption in practice. The following table shows the average size of home loans by the chief lending groups for 1939:

| | |
|---|---|
| Insurance companies | $5,041 |
| Commercial banks | 3,256 |
| Mutual savings banks | 3,471 |
| Savings and loan associations | 2,526 |

Source: Federal Home Loan Bank Board, Mortgage Recording Statistics.

*Sufficiency of Rate to Absorb Costs.* The downward revision of the interest rate in recent years has undoubtedly been caused, to a great extent, by predetermined and arbitrary action of government. At the same time, the adjustment appears to be warranted as a correction of a previously high level, caused in large measure by the inadequacy of the financing mechanism to service home owners. But the danger of over-correction must be equally recognized. To determine whether or not we are approaching this point, it is appropriate to test the adequacy of existing rates to carry the regular and recurring cost of operation.

We may begin with the cost or rate which must be paid to attract funds with which the loans may be made. An important related factor is the term of investment of the funds provided. For instance, commercial banks are

surfeited with savings at rates ranging from 1 per cent to 2 per cent. At such cost, little difficulty should be encountered in making loans at 5 per cent; but this runs the risk of financing long-term investment with short-term funds. Where there is either stability or expansion of deposits, it is readily apparent that the practice may continue without disruption over a long period of time. On the other hand, any marked contraction of deposits must inevitably lead to embarrassment in carrying the loan obligations which continue over a much longer period. We need only to recall the conditions of 1932 and 1933 to realize the possible consequences.

Next, let us predicate judgment of the adequacy of a 5 per cent lending rate upon the cost of funds provided on a reasonable length of tenure. On this basis, a range from 2½ to 3 per cent would seem to be a minimum. This is indicated by the present yield on long-term direct government bonds (2¾'s of 1960-65 currently sell to yield 2.39 per cent) and the attraction of savings by private institutions at 2½ and 3 per cent. In the case of the United States savings bonds, 2.9 per cent is being paid for ten-year money. Increasingly, these baby bonds are creating a standard on the savings side comparable to the FHA approved rate in the lending area. It is reported that, during the month of January, 1940, alone, the sale of savings bonds amounted to approximately $250,000,000. For the entire year 1939, this form of savings increased at a more rapid rate than any other category. Only by means of insured deposits or insured savings accounts is it possible for private institutions to compete effectively for the attraction of savings.

Assuming a minimum rate of 2½ per cent to be paid on long-term savings, there must now be added a sufficient allowance to cover the normal operating expenses. To a great extent, this is a variant of size, larger institutions being able to operate at a lower operating ratio. However, a large portion of housing activity is found in smaller localities where the home-financing and banking institutions are necessarily limited in their expansion. If one were to eliminate the one hundred largest commercial banks, it would be found that the remainder would have an average size of approximately $1,725,000. In the savings and loan group, the average size for all associations is $668,000, and $970,000 for member institutions of the Federal Home Loan Bank System.

The experience of savings and loan associations shows that the operating ratio must normally be held within 2 per cent of the assets. This is the margin permitted to cover compensation, rent, advertising, and various other operating expenses. An allowance of 2 per cent may appear to be extremely thin, but it is considerably in excess of the average fee paid for the servicing of loans. The RFC Mortgage Company and the Federal National Mortgage Association, which purchase insured refinancing and new construction loans, respectively, allow from ½ of 1 per cent to 1 per cent as compensation for loan service. However, there is a lack of

broad operating data to support the reasonableness of this schedule. Also, it is often made possible because the major operating costs are covered by the income from the permanent loan portfolio of servicing organizations.

Particularly, may the question be raised as to the adequacy of a 1 per cent service fee in the case of smaller loans. The servicing of an $8,000 loan would likely cost no more than a $3,000 loan, yet on a 1 per cent basis, the former would provide an annual service fee of $80 at the outset, as compared with $30 in the case of the smaller loan. Hence, in view of the increasing emphasis upon low-cost housing, there is a greater need to appraise the cost of servicing loans of this type. Certainly, if a 2 per cent operating ratio were assumed as reasonable, it would appear that its addition to a 2½ per cent cost of money would bring the total operating cost ratio dangerously close to the lending rate of 5 per cent. Where the loan is insured, allowance should be made for the insurance premium of ½ of 1 per cent, making the operating cost equal to the interest rate.

*Analysis of the Property Risk.* The risk on residential property constitutes a subject in itself but only brief reference can be made to its broad influence upon the rate structure. Recent housing trends reveal a danger of "streamlining" the terms of financing without equalizing support from the basic property which underlies the loan. Comprehensive, technological improvement has been extremely slow in residential building, the production process having remained on a small-scale basis despite the introduction of large-scale economical methods in the industrial segment of the economy. Illustrative of the dominance of the small unit of production in the residential construction field, it may be noted that there are few contractors building more than one hundred units per year. Specifically, a distribution of contractors in thirty cities for the year of 1938 according to the number of units built, is as follows:

| *Number of houses per builder* | *Builders* | | *Houses constructed* | |
|---|---|---|---|---|
| | Number | Per cent of total | Number | Per cent of total |
| Total | 2,891 | 100.0 | 9,697 | 100.0 |
| 1 house | 1,735 | 60.0 | 1,735 | 17.9 |
| 2–4 houses | 731 | 25.3 | 1,910 | 19.7 |
| 5–9 houses | 250 | 8.6 | 1,610 | 16.6 |
| 10–24 houses | 122 | 4.3 | 1,703 | 17.6 |
| 25–49 houses | 34 | 1.1 | 1,129 | 11.6 |
| 50–99 houses | 12 | .5 | 783 | 8.1 |
| 100 houses or more | 7 | .2 | 827 | 8.5 |

Source: *Monthly Labor Review*, Oct., 1939, Bureau of Labor Statistics.

Already there is evidence of efforts to introduce large-scale construction methods in the residential field. Progress in this direction should mean considerable saving to the home buyer but, at the same time, would clearly be a source of loss on existing properties. As a consequence, there is created a conflict of interests, but one which is usually settled on the side of progress. However, to the extent that progress is made, additional burdens in the form of capital losses will be thrown upon the rate structure now in effect. In short, additional doubt is cast upon the sufficiency of any rate under 5 per cent to cover current operating costs and conjunctural losses which would arise through the acquisition of real estate by foreclosure.

Viewed more generally, there is need for awareness of the possibility of the servicing or financing program developing more rapidly than the underlying or supporting property element. The experience of the railroads in failing to advance plant development sufficiently to carry the capital structure is a timely reminder, indeed. Similarly, in the case of housing, it is important that the financial accommodation be not extended beyond the limits permitted by the property improvement or the capacity of the borrower to pay. Especially is there danger that the emphasis on low-cost housing may contribute to this condition. To reach the objective, there has been considerable pressure on the financial salient, but there has been failure to develop necessary and supporting adjustment in construction.

*Ability to Pay.* A final test of the sufficiency of the home-financing rate structure is to be found in the ability of the borrowers to pay. In fact, this may well be the all-important keystone. After all, if borrowers fulfill their obligations, the property risks are largely neutralized, and there is less need for a higher rate because of the absence of losses on the property account. Under the circumstances, it is important that careful attention be given to the various conditions which affect the ability to pay. In the last analysis, the ability to pay may be determined only by reference to each individual risk. However, there are certain over-all influences, such as the extended maturity of the loan obligation and its increased percentage of the appraised value, which apply.

Prior to the current decade, it was not common to loan for a period longer than approximately twelve years. Today, a twenty-year maturity is in general use and a twenty-five-year maturity is not unusual. Likewise, loans are now being made up to 80 per cent and 90 per cent of the appraisal as compared with 50 per cent to 60 per cent in earlier years. As a result, there is danger of the owner's equity being inadequate to cover property depreciation and other risks. To illustrate, on a 90 per cent, twenty-year loan at 5 per cent interest, the borrower's equity would amount to only 25 per cent at the end of five years.

On the positive side, due consideration should be given to the many

benefits which will be derived from the wider application of the regular amortization of home-loan obligations. Much of our earlier trouble was caused by inconvenient maturities whereby the borrower was confronted with a large, lump-sum payment. In times of easy credit, the lender proved more than willing to renew the loan, but, under the stress of depression, the shortage of funds prevented this escape. Undoubtedly, near elimination of the straight loan and the wide adoption of the direct-reduction plan will do much to give a resilience to home financing not previously possible.

To date, we have insufficient experience with the results of loan amortization to give complete assurance of the ultimate safety of the present financing pattern, but there can be no doubt of its vital importance. In a sense, homes are no longer being bought at a price, but, instead, terms are being sold. On this basis, the chief and determining factor of safety is to be found in the relation between the monthly payment and the monthly income of the home owner. If this is held to a reasonable ratio, there is good cause for hope that liberal financing may actually prove safer than the more restricted accommodation previously in force.

*Conclusion.* In conclusion, the following high-lights of the home-financing, interest rate structure of today may be noted:

(1) Present rates on home loans no longer are the result of relatively free, unimpeded market action. Instead, the chief governor of the prevailing rate may be said to be that which is established by the FHA for insured loans.

(2) To an increasing degree, a standard is being created for the attraction of savings by the growing popularity of United States Savings Bonds which pay 2.9 per cent for ten-year money. These bonds are an attractive investment and are bound to offer keen competition to private, thrift institutions.

(3) With limitations being developed on both the lending and the savings rate, the spread which is available to cover operating expenses is becoming precariously thin. In fact, there is some question of its sufficiency to cover all costs.

(4) An analysis of the soundness of a 5 per cent rate in the light of its sufficiency to absorb costs and of its justification on the basis of the underlying property risk and the ability of home borrowers to discharge the loan obligation, emphasizes the need for caution in making further rate adjustments.

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# A COMPARISON OF INTERNATIONAL TRADE THEORIES

Discussion at a Round Table Conference of the American Economic Association, December 28, 1939. (See *Supplement*, March, 1940, p. 219.)

The theory of comparative cost has lately been replaced by more modern theories of international trade. This paper considers the relations between these different theories. Haberler's opportunity cost analysis emphasizes continuity with and similarity to the older doctrine by taking as data the scales of relative prices established by the pricing process. Ohlin's general equilibrium theory is simply a more general and explicit formulation of the opportunity-cost doctrine. Though Ohlin, like Haberler, demonstrates that mutually beneficial trade is possible only where relative price scales differ, he is less concerned with this result than with its underlying basis: the relative supplies of the productive agents. Elaboration of this ultimate scarcity aspect of international trade is what distinguishes this theory and gives it superior explanatory value. For dealing with welfare problems, the abbreviated opportunity-cost version is handier. Both modern formulations differ from the classical in that they assume a multiple, the latter a single-factor world.

One of the leading objections to the classical theory of comparative cost has been that it takes as its point of departure the long discarded labor-cost theory of value. Adoption of this theoretical base put modern sponsors of the doctrine of comparative cost in the anomalous position of accepting, for those parts of their analysis concerned with a closed economy, the thoroughly modern theory of general equilibrium, while atavistically reverting, for any discussion of international relations, to the rejected Ricardian value principles. Recent years, however, have witnessed a thoroughgoing reformulation of the theory of international trade which unites it in a consistent fashion with the main corpus of equilibrium theory.

The modern restatement of the principles of international trade has been chiefly associated with the names of Professors Ohlin and Haberler. These writers have provided us with two alternative approaches to an analysis of international trade, that of the former being explicitly formulated as an extension of the general theory of equilibrium,[1] that of the latter being expressed in terms of opportunity cost.[2] In a recent paper,[3] Professor Haberler indicated, rather briefly, some of the main relationships between his approach and that of Professor Ohlin, as well as the line of connection which links his own theory with that of Ricardo. Except for these remarks, and occasional references in recent literature, I know of no discussion of these matters. For this reason, and because the relationship of the opportunity cost version of international trade theory to the general equilibrium theory, on the one hand, and to the doctrine of comparative cost, on the other hand, is perhaps less apparent than it should be, it may not be amiss to devote a few pages to the task of clarifying these interconnections.

[1] Bertil Ohlin, *Interregional and International Trade*, Cambridge, 1933.

[2] Gottfried von Haberler, *The Theory of International Trade*, London, 1936.

[3] Read at the Round Table, December 28, 1939.

Professor Haberler has already given the clue in saying[4] that "when stated fully and properly in terms of opportunity cost the theory of comparative advantage merges into a general equilibrium and interdependence theory," and that "a theory of comparative advantage in terms of opportunity cost is the logical development of the classical doctrine." With these statements there can be no disagreement. It is possible to demonstrate, however, that since the opportunity-cost version of the theory of comparative advantage is rarely fully stated (and this for a good and sufficient reason, as will appear), its merging with the general equilibrium theory is not immediately apparent. Moreover, it can also be shown that it is only *because* of this limited formulation that the logical continuity of the opportunity-cost theory with the classical doctrine of comparative cost is at all obvious.

Let us consider first this matter of continuity of doctrine. Professor Haberler's statement of the opportunity cost approach is logically based upon three assumptions:[5]

(1) The price of each factor equals the value of its marginal product;
(2) Under competition, all units of any factor have the same price in all uses;
(3) The price of each commodity equals the sum of its marginal money costs, which in turn is equal to the marginal factor payments.

On the basis of these assumptions, it follows that the exchange ratio (in one country) between any two commodities is equal to the relative value of the productive agents required to produce a unit of each at the margin. This relative value of the requisite productive agents is the "opportunity cost" of a unit of each commodity, and replaces the relative amounts of labor in the classical theory of comparative cost.

The transition from the older to the more modern comparison of costs is made: (1) by admitting the relevance of more than one productive agent (labor) to the problem of relative values; (2) by adopting a common denominator (money) to permit the summation of the contributions of many factors; and (3) by assuming as known the results of the pricing process which determines what these sums will be. Once the costs in two isolated countries have been expressed as values of the productive agents, it is possible to replace two separate series of relative labor costs by two similar series of relative prices which reflect the contributions of many factors (rather than merely labor) at the margin. By comparing the two series, it is obvious that the principle of comparative advantage, expressed in terms of relative prices, still holds. "Each country would specialise in those branches of production in which it had a comparative advantage, or, in

[4] In his recent paper, referred to above.
[5] *The Theory of International Trade,* p. 181.

other words, would produce those goods whose costs were relatively lowest."[6] Thus this modern theory of international trade appears strikingly like the older theory, indeed, a mere extension of the same reasoning from a one-factor world to a multiple-factor world.

Continuity is undeniable, and is *emphasized* by concentrating on the possibility of establishing, on a multiple *as well as* on a single factor basis, two or more series of comparable exchange ratios or relative prices. It should be noted, however, that the similarity as to results of the theory of comparative *labor* cost and the modern theory of comparative *opportunity* cost is the consequence of assuming the outcome of the pricing process. One breaks into this process by taking as data the consequences of competitive bidding for the factors of production. The term "opportunity cost," indeed, is merely a name for the results of this process of competitive bidding.

This leads to the other topic to be considered, the relation between the opportunity-cost version and the general equilibrium version of the theory of international trade. Basically, as this statement suggests, the two are simply different formulations of the same thing. Mr. Samuelson expressed the matter well in saying that "when stated with full qualifications, the doctrine of opportunity cost inevitably degenerates into the conditions of general equilibrium."[7] The moment one begins to justify the assumptions from which the opportunity-cost theory of international trade starts, by tracing them back to their roots, one embarks upon an elaboration of the general equilibrium analysis. When the assumptions of the opportunity-cost theory of international trade are fully explored, this theory becomes indistinguishable from the general equilibrium approach of Professor Ohlin.

The similarity of the two modern versions, as well as the reason for Professor Ohlin's more detailed analysis, may be further clarified if we look at these matters from a different point of view. As we have seen, Professor Haberler, by assuming the pricing process to have set uniform values on the marginal contribution of each of the factors, is able to proceed directly to the construction of a set of relative prices in each trading country. Barring unusual circumstances (the analysis of which he does not undertake), any two such scales of relative prices are bound to differ at some points, thereby establishing a situation of comparative advantage. Professor Ohlin also works toward an identical goal: namely, the demonstration that where relative price scales differ, the possibility of mutually beneficial trade arises. He, however, is less concerned with this end product than with the reasons *why* these series may be expected to differ from country to country. To secure this explanation, he takes us back to the

[6] Haberler, *op. cit.*, p. 182.

[7] Paul A. Samuelson, "Welfare Economics and International Trade," *Am. Econ. Rev.*, xxviii (June, 1938), p. 263.

supplies of the productive agents (and the incomes and desires of the public), which he finds differ widely from nation to nation. These differences are basic to his entire theory, and they are obliterated if we assume (as in the classical doctrine) that the supply of only *one* factor, labor, is directly relevant. These differences are also obscured by the opportunity-cost approach, for in determining its array of relative prices, these are expressed as the sums of various valuable collections of factors. This device of "valuable collections of factors" (at the margin), while useful in certain connections, lumps together *different* factors whose differing scarcity among nations constitutes the very essence of a thorough and revealing explanation of why international specialization and exchange take place. It is by concentrating upon the immediate value aspect rather than upon the ultimate and determining scarcity aspect that the opportunity-cost approach makes the older and the more modern theories of international trade appear in most essentials similar.

"Why international specialization and exchange take place": in this phrase, and in the question of the resultant volume and terms of trade, are to be found the main objectives of Professor Ohlin's analysis, as Professor Haberler has pointed out. For attacking these problems, it seems to me incontrovertible that the Ohlin approach furnishes the most adequate and realistic set of analytical tools. Since international price differences are the principal immediate cause and regulator of trade, a satisfactorily complete explanation must unavoidably analyze in some detail the chief reason for their existence: the widely varying degree to which different lands are endowed with the productive factors. For dealing with the welfare problems of the gain from trade, however, this detailed discussion of why prices differ and why, therefore, geographical specialization and trade follow the lines they do, is superfluous. The theoretical explanation of the source and course of trade may be taken for granted, and attention directed to the alternative costs, in terms of income foregone, of using productive resources to produce goods at home or to acquire them by producing exports. This approach to the normative aspects of international trade thus, by telescoping these parts of the complete theory which are irrelevant to its problem, acquires the merit of simplicity.[8]

In conclusion, it may be admitted that the primary difference between both versions of the general equilibrium theory of international trade and the doctrine of comparative labor cost is that one assumes a single factor

[8] This is not to say that normative problems can be attacked only along the lines of the opportunity cost doctrine, but not with the tools of general equilibrium theory. Any proposition to this effect would be contradictory, since the opportunity-cost theory is merely an abbreviated version of general equilibrium. Indeed, where the total amounts of the productive factors change with trade, analysis of the gain necessitates resort to the broader theory. On this point, see Paul A. Samuelson, "The Gains from International Trade," *Canadian Jour. of Econ. and Pol. Sci.*, vol. 5 (May, 1939), p. 195.

of production, the other a multiplicity. The same is true of the Ricardian labor-cost theory of value and the Paretian schema of general equilibrium, to which the two contrasted bodies of international trade theory are related as part to whole. This difference, however, is one of considerable moment—so considerable that we no longer use the Ricardian value theory: its assumption of a single value-determining factor of production is so far from reality as to make it a clumsy and distorting instrument of analysis. And while no one could deny that the modern theoretical structure is the lineal descendant of the older, it has always seemed to me to be confusing rather than helpful to emphasize the similarity between the opportunity-cost and the comparative labor cost doctrines. Especially is this true when one considers that such similarity as exists is the result of suppressing that portion of the modern theory which is distinctively different.

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# UNION WAGE AND HOUR POLICIES AND EMPLOYMENT

Paper presented at a Round Table Conference of the American Economic Association, December 28, 1939. (See *Supplement,* March, 1940, p. 227.)

In manufacturing industries and in bituminous coal mining, wage rates since 1933 have been greatly increased and hours of work have been substantially reduced. Proponents of these changes have insisted that such wage and hour policies would increase total purchasing power and increase employment. The evidence presented below does not substantiate these claims. In fact, employment in bituminous coal mining was lower in 1937 than in 1929 when production was not so great, and employment in 87 manufacturing industries was slightly lower in 1939 than in 1929 when production was about the same. In bituminous coal mining and in manufacturing industries money payrolls were about 10 per cent below those of 1929, although, owing to a decline in the cost of living, real payrolls were higher than in 1929.

A more detailed study of bituminous coal mining shows the changes in per capita income, employee productivity, mechanization, costs, and sales income that were associated with increases in wage rates and decreases in hours that were introduced beginning in 1934.

There is no one wage and hour policy to which all unions subscribe. Generally speaking, unions like most employers sell their product at the best price and under the best conditions that they can obtain. What price they can command depends on many factors. In the short run if the industry is a profitable one, as for example petroleum refining and automobile manufacturing, and if the union has substantial bargaining power and its leadership is able and aggressive, relatively high wages and short hours of work may be attained. On the other hand, if the industry is faced with ruinous competition and overdevelopment, as for example in cotton and certain other textile industries, particularly if the scope of union organization is not industry-wide, the workers will have to content themselves with *relatively* low annual earnings and with relatively long hours.

Other factors which affect wage and hour levels are (1) the character of the demand for the product, that is, whether the demand is elastic or inelastic, (2) the proportion that labor costs constitute of the total cost of production, (3) the economic organization and financial structure of the industry, (4) competition from substitute products, (5) general business conditions, and (6) the relation of capacity to demand. Because of the operation of these factors, wage and hour levels and policies vary by regions, markets, industries, and often establishments.

In a number of industries, unions, like employers in numerous instances, have successfully maintained the price of their product during periods of drastic deflation. In the anthracite industry, for example, the union has not taken a single wage reduction since the Award of the Anthracite Strike Commission of 1903 and in the building and construction industry it is not uncommon for organized crafts to retain their nominal wage rates during periods of depression. In other industries, unions, like employers on numer-

ous occasions, have taken substantial cuts in the price of their product when faced with economic conditions which required such action. Witness the ten per cent reduction taken by the railroad workers in 1932 and the 60 per cent reduction accepted by the union in the full-fashioned hosiery industry during the years 1927 to 1932.

Some idea of the variations in wage and hour levels and policies is disclosed by an analysis of wage and hour data published by the Bureau of Labor Statistics for manufacturing industries. In 71 of the 87 industries at present included in the Bureau's survey, data were available for both 1933 and 1939. An analysis of these data for the months of May, 1933, and May, 1939, brings to light some interesting facts. During the six years beginning in May, 1933, the increases in hourly earnings ranged from 19.5 per cent in the book and job branch of the printing and publishing industry to 105.2 per cent in sawmills. Thirty-four industries, or about 48 per cent of the total, showed increases which amounted to 50 per cent or more. In fifteen industries the increases ranged from 60.0 to 69.9 and in five from 70.0 to 79.9 per cent.

The data for average weekly hours of work, not standard or maximum hours, also show wide variations. In 27 of the 71 industries, or 38.0 per cent of the total, average hours of work actually increased between 1933 and 1939. All but four of these industries, however, were durable goods industries whose volume of production undoubtedly had been greatly curtailed by the depression. Of the remaining 44 industries the reductions in average weekly hours below the May, 1933, level ranged from 1.0 to 33.1 per cent. In 22 industries reductions ranged from 0.1 to 9.9 per cent, in 15 from 10.0 to 19.9, in six from 20.0 to 29.9 per cent, and in one the increase was 33.1 per cent.

While economic conditions and union leadership have resulted in different wage and hour levels and the application of different wage and hour policies, it should be recognized that union leaders are in common agreement that workers must obtain a greater share of the national wealth and income. To attain this end many of them, notably since 1933, have strongly advocated the raising of the rates of pay as a means of increasing purchasing power and the reduction of hours of work to increase employment. In this they have been aided by federal legislation in recent years. It is not surprising, therefore, to find that in the 87 industries for which the Bureau of Labor Statistics compiles information, average hourly earnings between May, 1933, and May, 1939, have increased 53 per cent and weekly hours of work have been reduced 6.9 per cent below the abnormally low level that prevailed in May, 1933. How do the wage and hour levels of May, 1939, compare with those prevailing in May, 1929? According to the data published by the National Industrial Conference Board for 25 manufactur-

ing industries or groups of industries, hourly earnings in May, 1939, were 21.6 per cent higher and weekly hours 24.9 per cent lower than their respective levels in May, 1929.

One wonders whether any other period in American history has witnessed such drastic changes in the rates of pay and weekly hours of work. The achievement is all the more impressive in that the cost of living between May, 1933, and May, 1939, increased only about 10 per cent. Unions, however, cannot go on reducing hours and raising wage rates indefinitely. At some point the union will have to shift its demands to other aspects of industrial relations.

What have been the economic consequences of these drastic revisions of wage and hour levels upon costs, prices, profits, mechanization, annual wages, and opportunity of employment? Do shorter hours of work make for fuller employment and do higher wage rates improve the standards of living of workers?

Some light can be thrown on the answers to these questions by an examination of recent developments in the bituminous coal industry.[1] In April, 1934, the operators and miners in the Appalachian fields signed wage contracts that provided for reductions in hours of work and for substantial wage increases. The terms of the wage contracts were embodied in the Coal Code and applied with modifications to outlying fields by the N.R.A. As a result, daily hours of work were reduced from eight to seven, weekly hours from 40 to 35, and rates of pay were increased about 22 per cent, the rate of increase varying by occupational groups and by fields.[2] The average hourly earnings of all employees equalled approximately 71 cents and daily earnings about $5.00 after the new agreement went into effect. It is with the effect of these adjustments that this paper is primarily concerned.

*Effects of the April, 1934, Agreements on Costs, Sales Income, and Margins*

The N.R.A. compiled cost and income data for fifteen months, November, 1933, to January, 1935, for approximately 1,000 mines located east of the Mississippi River. The combined production of these mines amounted to 61.7 per cent of the total output of the industry in 1934. The cost data that were compiled by the N.R.A. did not include interest payments on investments or taxes on income and unassigned acreage.

[1] For a more detailed discussion of developments in the bituminous coal industry see *Economic Consequences of the Seven-Hour Day and Wage Changes in the Bituminous Coal Industry,* by Waldo E. Fisher, University of Pennsylvania Press, 1939.

[2] Based on data published by the Bureau of Labor Statistics for bituminous coal mines in monthly issues of *Employment and Pay Rolls.* To compute the changes in hourly earnings resulting from the adjustments made in April, 1934, the author took the average hourly earnings for the four months preceding and the four months following the month of April.

To determine the effects of the April adjustments in hours and wages on costs it was necessary to select comparable months before and after April, 1934, that is, months in which the volume of production and the number of days worked were about the same. Such a procedure was necessary because per ton costs of coal rise with great rapidity as the number of tipple starts or days worked approaches zero and the production of coal is curtailed. The months selected for the pre-agreement period were December, 1933, and January, 1934, and those for the post-agreement period were December, 1934, and January, 1935. What effects did the seven-hour day and wage changes have upon costs and sales income?

Total reported costs increased 22.7 cents or 14.5 per cent; labor costs increased 16.8 cents or 18.5 per cent; costs of supplies, 2.9 cents or 12.6 per cent; and total producing costs 20.3 cents or 14.3 per cent. The fixed costs for which data were segregated on the cost reports—namely, administrative expenses, costs on a fixed lump-sum basis, mine supervisory and clerical costs, as well as mine office expenses and salaries and expenses of other employees distributed to the mine—showed an increase of one-half cent a ton. Mixed costs, that is, cost of supplies (including power purchased and mine fuel) and selling expenses, increased about five cents or 14.7 per cent, and direct costs, 17.6 cents or 17.9 per cent.

Sales income per ton was increased 29.5 cents or 18.3 per cent. In other words, the entire increase of 22.7 cents a ton in total reported costs was passed on to the consumers together with an additional charge of 6.8 cents a ton. In the selected two-month period following the wage and hour adjustments, operators' margins were 10.9 cents a ton. This figure should be compared with 4.1 cents a ton, the amount received during the selected two-month period before April, 1934. These margins, it should be noted, do not represent net earnings. The operating companies still had to pay interest on investments as well as taxes on income and in some cases on unassigned acreage.

The behavior of costs, sales income, and margins for the industry as a whole cannot be taken as representative of what happened to the individual coal fields. Actually the impact of the wage and hour adjustments upon the various fields showed great variations. This was to be expected because, while the reduction in hours was the same throughout the industry, the increases in the rates of pay were far from uniform. The increases in labor costs ranged from a low of 2.7 per cent in Indiana to a high of 28.4 in Alabama, Southern Tennessee, and Georgia. The increases for producing costs ranged from 2.8 to 23.6 per cent, for total reported costs from 3.9 to 22.1 per cent, and for sales income from 11.0 to 26.3 per cent.

The operators in most of the districts, however, were able to improve definitely their financial position as far as margins were concerned, but the extent to which this was done differed greatly in the various fields. Only

three fields were unable to pass the total increase in costs on to the consumers. Although most of the operators were able to improve their financial position, it should not be assumed that the margins were too high. Data for measuring profits and losses were not available.

In passing, it should be pointed out that the wage and hour revisions did not improve the competitive situation within the industry. In the case of both labor and total costs the spread between low and high costs was greater after the April adjustments than that which had prevailed prior to April, 1934. The coal mines in Indiana and Illinois definitely improved their competitive standing in the industry.

### *Some Other Economic Consequences*

The effects of the seven-hour day and wage changes upon costs, sales income, and operators' margins, although of major importance in any discussion of wage and hour policies, are incidental to the particular aspect of the problem under consideration at this session. Let us, therefore, examine the effects of the April adjustments on employment, annual income, and related factors.

The months and years immediately following the wage and hour revisions were characterized by a marked improvement in production, employment, and other business indicators. Much of the gain occurring in these years must be attributed to the general forces of recovery that followed in the wake of one of the worst depressions in American history. To determine the net effects of the wage and hour revisions on employment, annual per capita income of full-time employees, and total payrolls, it was necessary to remove the cyclical influences that were at work during these years. This was accomplished by the use of such common denominators as millions of tons and 200-days worked.

The introduction of the seven-hour day and the accompanying increases in the rates of pay was immediately followed by a 10.0 per cent drop in output per man per day. To meet their market requirements during the twelve months beginning with April, 1934, the operators added more men to their payrolls and increased the number of days their mines worked. As a result man-days per million tons produced increased 8.1 per cent. Per capita income of full-time employees per 200-days of work rose 14.9 per cent, and the total wage bill per million tons produced increased between 31 and 35 per cent.

Faced with substantially higher labor costs (18.5 per cent above the level prevailing during the selected months prior to the April agreements) as well as a 10 per cent reduction in employee productivity, and finding themselves in a somewhat better financial position, the operators placed

heavy orders for mechanical loading equipment. In 1935, the proportion of the total output of deep mines that was mechanically loaded—which incidentally had remained practically stationary for the three preceding years—rose 10.7 per cent. By 1937 the proportion of the total output of deep mines that was contributed by this type of equipment stood at 20.2 per cent as compared with 12.3 per cent in 1933—an increase of 64.2 per cent.

With the extension of mechanical loading the output per man per day rose steadily. By 1937 it was only 1.9 per cent below the 1933 level. As the output per man per day rose, the opportunity of employment was reduced. By 1937, man-days per million tons were only 1.4 per cent above the 1933 level. Money per capita income, responding to two additional wage increases—one of approximately eight per cent in 1935 and another of about twelve per cent in 1937—continued to rise. By 1937, money per capita income of full-time employees per 200-days of work was 35.8 per cent and real per capita income 22.0 per cent higher than their respective levels in 1933.

What about the total wage bill? Did it continue to rise? The replacement of men with capital—although extraordinarily rapid during these years—did not begin to offset increases in the rates of pay which during the years 1934 to 1937 amounted to about 74 per cent. As a result, by 1937, nominal payrolls per million tons produced were 45.9 per cent and real payrolls 31.2 per cent above their respective 1933 levels.

To summarize, in the bituminous coal industry the immediate effects (within a period of nine to twelve months) of the seven-hour day and substantial increases in hourly or piece rates were:

1. Increases in all major cost items, but especially in labor costs, selling expenses, supplies, and total reported costs.
2. Increases in average sales income per ton that were greater than those required to absorb the additions to the cost of production. It should be noted that the increase in sales income was made possible by the power granted to the Code Authority to regulate prices under the supervision of the federal government.
3. Increases in operators' margins that placed all but three of the reporting fields east of the Mississippi River in a better financial position.
4. A material reduction in output per man per day.
5. A substantial increase in man-days worked per million tons of coal mined.
6. A substantial increase in the per capita income of full-time wage-earners per 200-days worked.
7. A very material increase in the total wage bill per million tons mined.

The economic consequences of the 1934 agreement plus additional wage increases in 1935 and 1937 over a period of three years, 1935 to 1937 inclusive, may be summarized as follows:

1. A sharp increase in the introduction of mechanical loading devices. It should be pointed out that it is impossible to say how much of the very rapid rise in

mechanical loading was due to wage and hour adjustments and how much to other factors such as the improved financial position of the industry and a more optimistic attitude among operators.
2. A steady increase in the output per man per day.
3. A loss in most of the gains in employment as measured by man-days per million tons produced.
4. Further material increases in both per capita income of full-time wage-earners per 200-days worked and in the total wage bill per million tons of coal produced.

Generalizations on the basis of these findings for the bituminous coal industry should be drawn with caution. In the first place, labor costs constitute an extremely high proportion of the total cost of mining coal—approximately 65 per cent. For this reason increases in labor costs should tend to raise prices to a greater extent in bituminous coal than in industries with a relatively low labor cost.

Second, much of the work done by coal miners involves heavy physical effort. One would expect a reduction of hours from eight to seven to reduce the output per man per day less for work of this character (because of the element of fatigue) than for work which is less strenuous.

In the third place, because it was possible in the bituminous coal industry to substitute instrumental capital for labor, the operators were able to overcome in part the loss in employee productivity and to reduce the number of men necessary to mine a given tonnage. This procedure could not have been utilized had the work been of such a nature that men could not be replaced with machines, or had the substitution of labor by machines and labor-saving devices practically been completed.

In the fourth place, the fact that many mines had been operating at substantial losses for a considerable time as well as the opportunity to regulate coal prices under the supervision of the federal government enabled the operators to pass on to the public an amount which was greater than the actual increase in costs. Under different circumstances in this decentralized, overexpanded industry such a procedure would not have been possible.

In the fifth place, the bituminous coal industry is greatly overdeveloped. As a result, when the output per man per day declined, the operators had the choice of working their mines more days per year or adding more men to the payrolls of the industry. In the absence of excess capacity and reduced working schedules, the introduction of the seven-hour day when accompanied by a decrease in employee productivity would require, in the initial stages at least, substantial additions to payrolls, assuming of course the same or increased demand for the product.

In the sixth place, the demand for bituminous coal in the short run is relatively inelastic and therefore the increased costs could be passed along to the consumers without an immediate effect on the volume of coal sold.

The result might well have been different if the demand were elastic. Last, the wage and hour adjustments were made on the upswing of the business cycle which made it possible for the increased costs to be absorbed with less difficulty than would otherwise have been the case.

The economic consequences of the seven-hour day and substantial increases in hourly and piece rates in the bituminous coal industry were those which the orthodox economist would have predicted, except its effect on annual earnings. Even in this instance, were the demand for coal more elastic, his contention might well have been substantiated. It may still be borne out over a longer period of time if the higher coal prices caused by the shorter work-day and substantial wage changes result, as the operators maintain they will, in the more efficient utilization of bituminous coal or in the further growth of substitute fuels.

Up to this point our analysis has been confined to an examination of the net effects of the seven-hour day and wage changes since 1933. What light does a comparison of employment and earnings in 1937 with those in 1929 throw on our problem? For such a comparison, it is desirable to choose two periods showing the same level of production. Since identical levels, however, are not available, use was made of February, and March, months in which the 1937 production was about seven per cent above that of 1929. Although hourly earnings of all wage-earners in 1937 were 20.2 per cent above those paid in 1929, the money wage bill was 11.0 per cent below. The real wage bill, however, was 5.5 per cent above the level prevailing in 1929. It is disturbing to discover that despite a reduction in standard daily hours from eight to seven and weekly hours from 48 to 35, the number of wage-earners employed by the industry was still 1.2 per cent less than the number at work in comparable months in 1929. Thus a 20.2 per cent increase in hourly earnings was accompanied by a loss of 11 per cent in money payrolls but by a 5.5 per cent increase in real payrolls because cost of living was still below the 1929 level. Moreover, a 16.0 per cent decrease in weekly hours of work failed to maintain a level of employment equal to that which existed in 1929 when production was about 7 per cent under the level prevailing in 1937.

### *Hourly Earnings, Payrolls, and Employment in Manufacturing Industries*

What happened to hourly earnings, payrolls, and employment opportunity in manufacturing industries? Because manufacturing production in October, 1939, was about 2.0 per cent above the level of October, 1929, a comparison of the data on employment and payrolls for these two periods should be of interest. Hourly earnings in 1939 were 22.1 per cent above those paid in 1929. Nominal payrolls were 9.8 per cent below while real payrolls were 8.4 per cent above those paid out in 1929. Hours per week in 1939 were

20.9 per cent below 1929 and the number of wage-earners on manufacturing payrolls was 3.9 per cent less than those employed in 1929.[3]

We see, then, notwithstanding very substantial increases in hourly earnings, that the average nominal payrolls in 87 manufacturing industries as well as bituminous coal are still below, while real payrolls are from 6 to 8 per cent higher than, their respective levels in 1929. Moreover, despite substantial reductions in weekly hours, the number of wage-earners at work in these industries is slightly less than the number employed in 1929. Do these represent the accomplishments of almost seven years of feverish activity on the part of organized labor and the federal government to increase purchasing power by raising the price of labor and to increase employment by shortening the hours of work? This limited analysis does not give a completely satisfying appraisal of union wage and hour policies but it does suggest that over-emphasis on shorter hours and higher wage rates may not be the way to raise the standards of living of wage-earners in American industries.

The ardent proponents of the purchasing power and shorter hour theories will argue: "Well! We are not surprised. This is what we should have expected considering technological developments during these years." To this contention one can only say: "Under what conditions does the replacement of men and women with instrumental capital take place more rapidly—when wage and hour levels are related to changes in productivity that follow the gradual introduction of machinery, or when they are drastically revised in a few years in the hope of immediately attaining desirable objectives which may not be capable of realization in the short run?"

Of especial significance to us in the United States is the following comparison of recent developments in Great Britain and the United States that was published in *The Economist* (London) of July 1, 1939.

Between 1929 and 1938 the average hourly earnings of American workers (according to the figures of the National Industrial Conference Board) increased by 23 per cent. Relatively to the movement of average wholesale prices, the increase was no less than 49 per cent. But payrolls—the total amount of money paid out in wages—fell, according to the official index, by 18½ per cent in the same period. To place two figures in juxtaposition is not to prove that the one is the cause of the other. But it is at least suggestive that, while wage-rates in

[3] The percentages that wages (not including salaries) constituted of the total income paid out by manufacturing industries for the years 1929 to 1937 are presented below:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 |
| 59.9 | 54.6 | 53.3 | 53.3 | 58.0 | 60.2 | 61.0 | 58.4 | 58.7 |

It will be observed that in all years except 1934 and 1935 the wage earners' share of the total manufacturing income was less than in 1929. It is also important to note that total manufacturing income in 1937—the last year for which data are available—was still 13.3 per cent below the 1929 level. Robert R. Nathan, *Income in the United States, 1929-37*, U. S. Department of Commerce.

Great Britain rose over the same period by less than a third of the American increase, British payrolls (so far as they can be calculated) increased by 20 per cent instead of the American fall of almost the same proportion—and this in the country which is the more "mature" of the two.

I close this discussion of union wage and hour policies and their relation to employment opportunity with three questions:

1. What is organized labor's objective? To secure high wage rates, shorter hours of work, and perhaps higher annual earnings for a restricted number of employees in a given industry, or to improve the economic well-being of all employees in the industry?
2. If organized labor is concerned with the improvement of the economic status of all employees, have not its leaders in many instances been too much concerned with high wage rates and short hours and too little with total payrolls and maximum employment opportunity?
3. Will not continued emphasis on wage and hour levels occasion an even more rapid replacement of labor by machines and therefore aggravate rather than improve the unemployment situation?

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# A NOTE ON CYCLICAL CHANGES IN DEMAND ELASTICITY

It has been argued that in areas of monopolistic competition, demand is less elastic in good times than in bad. This is called the principle of diminishing elasticity of demand by Mr. Harrod, who derives it from the common-sense thesis that in prosperity buyers are less willing to undergo the inconvenience of changing their customary avenues of expenditure.

This view has been supported, probably incorrectly, by reference to the cyclical behavior of advertising. Better support may exist in the timing of product innovations.

Against the principle of diminishing elasticity are many factors, such as the stability of transport rates and the incidence of reëmployment. The alleged increase in monopolistic agreements during the slump, and other arguments, point to countervailing rather than to invalidating influences. Measurements of the degree of monopoly suggest either that the principle is incorrect, or that countervailing tendencies are more powerful.

Sharp "corners" in demand curves as seen by oligopolists would in part support and in part discredit Harrod's thesis. Frequently irrelevant to his hypothesis are views such as that the demand for durable goods is less elastic in depression.

Increasing attention has been directed to the character of changes in demand elasticity during cyclical periods. Interest in this question has been based both on the relevance of the issue to cycle theory and on its relation to the explanation of the price policies of individual firms operating under conditions other than pure or perfect competition. The purpose of this note is to bring together a number of scattered comments that have recently appeared, and to add a few points to the discussion.

1. Mr. Harrod is largely responsible for raising the issue. Speaking of an economy in which competition is largely imperfect, he writes that ". . . imperfections may be expected to increase as the community gets more affluent."[1] If imperfection increases in good times this means that the demand for the products of individual sellers becomes less elastic than in depression. "If the generalization . . . is accepted, it might properly be named the Law of Diminishing Elasticity of Demand, which means that, as output as a whole increases and individuals become more affluent, their sensitiveness to price differences declines."[2] The basic reasons for this proposition he finds chiefly in the common-sense argument that people are inconvenienced by departures from their usual avenues of purchase. These inconveniences he views as of two sorts: the disagreeableness of thinking about "money . . . because it reminds them of the general limitations of the human lot and their own disappointments and frustrations," and the "more practical difficulties . . . within the business world itself" where "time and trouble" are required "to find the 'cheapest market.' "[3] Harrod goes on to argue that increasing prosperity leads to a condition in which

[1] *The Trade Cycle,* Oxford Press, 1936, p. 21. His "law" of diminishing elasticity of demand has provoked much discussion, as will be indicated in succeeding references.

[2] *Ibid.,* p. 21.

[3] *Ibid.,* pp. 20-21.

"habits become hardened" and part of the gains of prosperity "are taken out in the wastage due to not bothering too much." By contrast, individuals and businesses in periods of falling incomes "resent and resist the curtailment of their wonted pleasures," and business enterprises "must strain every nerve to reduce costs."[4] As a result, the demands for the products of individual sellers become less elastic in good times than in bad. We may add that in consumer buying, the element of conspicuous consumption, which tends to make disregard of price a virtue, must flourish more in boom than in slump; in the latter period prestige is often attached to bargain hunting.

Harrod is careful to differentiate this line of reasoning from a fallacious avenue leading to the same conclusion—namely, that the marginal utility of money declines with increases in income, and hence, that when persons are better off, an advance in price will be less of a deterrent to purchase than formerly. The fallacy involved, clearly, is that while a unit of money may be less significant to the richer community, so also is the marginal unit of any good purchased. "The ratio of the utility of the penny to the utility of the marginal unit of the commodity may in general be expected to be the same, and the same also therefore the deterrent effect on purchase of the rise of price by a penny."[5]

2. An additional support for the above thesis has been found by Professor Hansen in the cyclical behavior of advertising. He writes: "The existence of this law [Harrod's] appears plausible. It is certainly reasonable to suppose that imperfect competition, in Chamberlin's sense, flourishes during the boom. We know that advertising increases with good times, and that advertising serves to attach a clientele of customers to one firm."[6]

It seems extremely doubtful whether the cyclical behavior of advertising provides the support for the "law" suggested above. The influence of advertising cannot be judged by considering only its volume. It is necessary also to take account of a number of factors, including cyclical changes, if any, in the character of advertising appeals and in the *relative* position of different firms in this respect. We may consider three types of situations.

(a) Let it be assumed that there is no change in the character of advertising (*i.e.*, the emphasis on price *versus* quality of product is unchanged), but that the amount of advertising (measured either in total space or frequency, or both) declines in the same proportion for all sellers. In this case there should be little effect upon the relative position of rival

[4] *Ibid.*, pp. 86-87.

[5] *Ibid.*, p. 20.

[6] Hansen refers, however, to the rise of monopolistic combinations during depressions as an offsetting factor. A. H. Hansen, *Full Recovery or Stagnation,* New York, 1938, p. 58. This statement by the same author appeared in his article, "Harrod on the Trade Cycle," in the *Quart. Jour. Econ.*, May, 1937.

firms, and no *a priori* reason for supposing that a short-run reduction in advertising would reduce market imperfections and so increase demand elasticities. Product differentiation has developed in part as a result of advertising, yet a short-run diminution in the latter would not materially affect the amount of differentiation. The reverse might even be argued; if buyers are less exposed to selling efforts, they may in the short run be more inclined to continue purchasing at the "old stand," for alternatives are brought less to their attention and the force of habit operates against change.

(b) If, again, there is no change in the character of advertising, but some sellers in the slump cease advertising, or reduce it appreciably more than do others, the effect upon elasticities cannot well be predicted. If the firms curtailing advertising place more emphasis on direct price competition, the effect may be to increase the elasticities of demand. Otherwise the situation might be analogous to the simple case of a smaller number of sellers in a given market, with the likelihood of diminished elasticities.

(c) It is more probable that a change in the volume of advertising will be accompanied by a shift in its general character. The relative emphasis upon price rather than product quality may be altered. If depression brings a smaller volume of advertising, in which relatively greater attention is given to price considerations,[7] the effect may be to increase elasticities; if increasing emphasis is placed on trade names and quality of product, the opposite result may be expected. Of course, it is necessary to qualify this statement by differentiating sectors of the demand schedule. In depression, the issue is usually whether to leave price unchanged or to lower it somewhat. In this sector of the schedules, emphasis on the price factor would seem to increase the sensitiveness of buyers to price considerations.[8]

3. In addition to Mr. Harrod's own arguments, and the more doubtful defense of his thesis suggested by cyclical variations in advertising, it seems to the writer that considerable support may be found in the timing of product innovations. It is well known that periods of depression

[7] In discussing the effect of advertising (although without special reference to cyclical periods) Chamberlin argues that "the slope of the curve will be affected primarily when it is a question of price competition. . . . Imperfect knowledge in itself makes the demand curves for all products less elastic; advertising, through offsetting it, makes them more so." *Theory of Monopolistic Competition,* Cambridge, 1933, p. 118. Chamberlin seems to take little account, however, of differences between sectors of the schedules, or of short-run changes in the relative emphasis on price, or quality, by rival sellers in the same market.

[8] It should not be inferred that emphasis on product quality will necessarily decrease the downward elasticity of the demand for the product of any seller employing it. See A. L. Meyers, *Elements of Modern Economics,* New York, 1937, p. 146. Yet the general effect upon a *group* of rivals stressing product quality, rather than price, should be in this direction.

call forth strenuous efforts on the part of sellers either to introduce new products, or to push more strenuously the use of innovations already known but not yet marketed to any substantial degree. Such activities may be, in some instances, at once so overwhelmingly successful that demand in the relevant portion of the schedule is highly inelastic; frequently, however, such changes in products tend to reduce the degree of market imperfection and hence support Harrod's view that demands become more elastic in depression. It is generally admitted, for example, that the increasing introduction of non-railroad means of freight and passenger transportation during the 1930's has tended to increase the elasticity of demand for particular types and agencies of transportation.

4. Turning to specific objections that have been advanced against the "law" in question we find several propositions that seem logically valid, although their practical importance is difficult to assess. Mr. Gaitskell has called attention to the inertia of expenditure habits in the short run,[9] a factor that certainly must be important, especially in extremely short and minor periods of depression. The significance of this factor is probably affected materially by institutional circumstances. In the United States the buying of both business firms and individual consumers is doubtless less affected by custom and attachment to long established sellers than is the case in England. In the former country there seems to be less willingness to accept the doctrine of "live and let live," a greater tendency to shop and to bargain relentlessly in quest of short-run pecuniary advantages, and so a less strong tendency for habit to operate against the principle of increasing elasticity of demand. Witness the ability of motor car makers in the United States in 1939 to disarrange the steel price structure.

A partial denial of the inverse relation of economic conditions and demand elasticity has been found by Dr. Singer[10] in the prevalence of debt which tends to bind low income consumers to particular retailers during depression. He advances empirical support for the proposition that such buyers are able to search for the cheapest market (and hence tend to increase demand elasticity) only when economic conditions are improving. The increase of inelasticity in recovery and prosperity is further diminished, Singer argues, by the incidence of reëmployment. The previously unemployed are generally the older workers who are naturally more careful in spending and hence less inclined to give way to Mr. Harrod's temptations than younger workers. Moreover, there must often be substantial improvement in incomes before indifference toward price has a chance to develop. The importance of these factors, especially debt, doubtless also depends largely on the varying social and institutional characteristics of

[9] In a review of Harrod's book in *Economica*, November, 1937.

[10] H. W. Singer, "Another Note on the Law of Diminishing Elasticity of Demand," *Econ. Jour.*, March, 1938.

communities; in American retail trade it is probable that the credit policy of stores frequently leads poorer customers to shift their purchasing habits in bad times.

A fourth objection that has been leveled against the view that demand is more elastic in the slump has called attention to the possibility that the shifting of demand from sellers of high to sellers of low quality products may result during the slump in a lessened elasticity in the demand for each grade of product.[11]

5. Two further exceptions can be made to Harrod's thesis that elasticity and economic affluence are inversely correlated. In the case of commodities in which transport costs are substantial in relation to price,[12] the stability of freight rates in comparison with commodity prices may be an important factor. For inland transport rates tend to be much more stable than wholesale prices generally[13] with the result that in depression, areas of distribution and hence the number of sellers and demand elasticity, tend to decrease. A second exception may be found in some types of enterprise, notably various types of retail trade in the United States, where there may be a direct relationship between cyclical conditions and the number of competing firms. A reduction in the number of rivals will certainly tend to affect demand elasticities and may reduce them.[14] Recent American data indicate a direct relation between economic conditions and the number of firms in some divisions of retailing, although the evidence is far from conclusive.[15]

[11] R. F. Bretherton, "A Note on the Law of Diminishing Elasticity of Demand," *Econ. Jour.*, Sept., 1937. Mr. Bretherton also objects to the use of the "law" in *long-run* analysis because of (1) the importance of new products, and the possibly higher marginal real utility derived from increments of income due to created psychological need for them, (2) cases of greater elasticity resulting from pushing sales to lower income strata, and (3) instances of increased large-scale buying which may warrant greater care in purchasing. To these points might be added the broadening of market areas due to improved transportation and communication, and the improvements taking place in business methods, including the purchasing function.

[12] See Bureau of Statistics, Interstate Commerce Commission, *Freight Revenue and Value of Commodities Transported on Class I Steam Railways in the United States, Calendar Year 1930,* Washington (mimeographed), 1932, for the most complete statistical information on this subject.

[13] See John D. Sumner, "Public Utility Prices and the Business Cycle: A Study in the Theory of Price Rigidity," *Rev. of Econ. Stat.*, Aug., 1939, and R. C. Epstein and J. D. Sumner, "Effect of the Depression upon Earnings and Prices of Regulated and Non-Regulated Industries," *Am. Econ. Rev. Suppl.*, March, 1936.

[14] As Mrs. Robinson has pointed out, a reduction in the number of rivals does not necessarily reduce elasticities. The buyers formerly attached to the firms no longer existent may have so little preference for any one of the smaller number of firms remaining as to increase rather than to reduce elasticities of demand. *Economics of Imperfect Competition,* London, 1936, p. 71.

[15] See Data of the Bureau of the Census given in the *Statistical Abstract of the United States, 1938,* Table 832, for the years 1929, 1933 and 1935. Changes in classifications make conclusions hazardous; moreover, while the tendency seems present in some lines of

6. Many, and perhaps the most important, objections to the "law" do not in fact challenge its validity, but point to countervailing factors which tend to offset its influence. Several have invoked the prevalent assumption that monopolistic practices increase in depression periods, inducing sellers not to translate increased elasticity into price reductions.[16] In applying this argument to cycle theory it would be important to know more precisely than present information permits, the particular period of the cycle in which monopolistic practices are most likely to develop. Does the rise of monopolistic practices usually occur early in recession, or is this development usually preceded by a period of price cutting? Illustrations could be advanced to support either contention; it is probable that the answer varies both between different market situations and with changes in the knowledge and attitudes of business-men. Similar objections that might be advanced are fear of "spoiling the market," and the belief that price reductions may lead to the postponement of buying in the expectation of further price decreases. While these objections are important ones, they do not, as previously mentioned, invalidate the "law"; moreover, they are relevant only to those market situations where monopolistic agreements are otherwise practicable. Perhaps in some cases Mr. Harrod's law may be a factor further encouraging price instability, while in cases more favorable to monopolistic action, its presence may be an added inducement to combination because of the increased fear of price cutting engendered by increased elasticities.

Approximate and partial measurements by Kalecki[17] and Dunlop,[18] which show an increase during depressions in the "degree of monopoly" in Lerner's sense,[19] tend to indicate either that Harrod's thesis is wrong, or that its influence is more than offset by such factors as those just mentioned. Kalecki espouses the later interpretation and also mentions additional countervailing forces: "Mr. Harrod was rightly criticized in that there exist other factors which influence the degree of monopoly in the

trade, it is lacking in others. The most thorough study of changes in a particular locality is to be found in E. D. McGarry, "The Structure of Retail Trade in Buffalo 1929, 1933, and 1935—Grocery Stores," Bureau of Business and Social Research, University of Buffalo, *Statistical Survey Suppl.*, vol. xiv, no. 7A. See also his "Changes in Retail Trade in Buffalo, 1929, 1933, and 1935," *Census of Business*, U. S. Department of Commerce, 1938.

[16] See the reviews of Harrod's book by D. H. Robertson, *Canadian Jour. of Econ. and Pol. Sci.*, Feb., 1937; Joan Robinson, *Econ. Jour.*, Dec., 1936; and Alvin H. Hansen, *loc. cit.* It must be recognized, of course, that in so far as the rise of monopoly involves an actual reduction in the number of firms, elasticities of demand may be reduced.

[17] Michael Kalecki, *Essays in the Theory of Economic Fluctuations*, New York, 1939, ch. 1.

[18] John T. Dunlop, "Price Flexibility and the Degree of Monopoly," *Quart. Jour. of Econ.*, Aug., 1939.

[19] A. P. Lerner, "The Concept of Monopoly and the Measurement of Monopoly," *Rev. of Econ. Stud.*, June, 1934, where the degree of monopoly is used to mean the ratio of the difference between price and marginal cost to price.

opposite direction. For instance, in the slump, cartels are created. . . . More important still is the fact that in spite of the fall of prices of raw materials and wages some prices of finished goods tend to be relatively 'sticky' . . . for various reasons . . .," including fear of competitive price cutting and the belief by cartels that new competitors will not arise.[20]

7. An interesting approach to the question in cases of oligopoly has been advanced by Mr. Sweezy.[21] Placing emphasis on demand as estimated by the seller he has hypothecated a sharp turn or "corner" in demand as seen by oligopolists, a demand schedule which he believes to be quite inelastic at prices below the turning point (due to the expectation that rivals will meet reductions in price) and elastic at prices above the turning point (due to an expected failure of rivals to raise their prices similarly). He then suggests that general increases in demand may lead sellers to think that demand will be less elastic than formerly for upward, and more elastic for downward, movements of price. An upward movement in price will be thought of as encountering a more inelastic situation when demand is increasing, because of fuller utilization of capacity, difficulties of prompt delivery, and similar factors. Contrariwise, a general decrease in demand, Sweezy believes, will "have the opposite effect on the shape of imagined demand curves, making them more elastic for upward movements."

Thus this view both accepts and rejects Harrod's thesis—supporting the latter's argument that demand becomes less elastic in boom, while denying that it becomes more elastic in the slump. This assumes, of course, that in the first case the significant range of the schedule is that above the prevailing price, while in depression the significant range is that below the "corner" or turning point.

The above approach is salutary. Not only does it correctly place emphasis upon what sellers think is the demand situation, but it differentiates between upward and downward elasticities, a point neglected by Harrod. It should be remembered, however, that the argument is relevant only to those cases when the expected reactions of rivals are important factors in the price situation. Moreover, it obviously does not allow for the influence on imagined demand curves of sellers' views as to the reactions of buyers. The latter become highly important in those polypoly cases where expectations of rival reactions are not important, and in monopoly and duopoly[22] situations. But here a further complexity enters: granting that buyer attitudes are more elastic in the slump, the question remains whether

[20] Kalecki, *op. cit.*, p. 35.

[21] Paul M. Sweezy, "Demand under Oligopoly," *Jour. of Pol. Econ.*, Aug., 1939.

[22] Where products are homogeneous, Kristensen has shown that there will generally be only one price, set by the duopolist with lowest marginal cost. See "A Note on Duopoly," *Rev. of Econ. Stud.*, Oct., 1938.

sellers tend to an over- or under-estimate of changes in buyer attitudes. Probably no answer to this problem is possible which possesses any high degree of probability.

8. Before bringing this note to a close, reference should be made to several situations which might at first seem to refute the diminishing elasticity thesis, but which in fact do not. The idea has frequently been advanced that the durability of many types of producers' and consumers' goods leads to the deferment of replacements in depression years. Price reductions encounter an inelastic demand, due either to caution in the face of an uncertain future, or to the financial inability of the buyer.[23] But this is true only of the demand for types of commodities, and need have no direct effect upon the position of the sellers of differentiated products except in cases where the seller in a monopoly, duopoly, or oligopoly situation may consider the elasticity of demand for the general product, assuming that his own price reduction (in the last two situations) will be met by competitors. Thus Mrs. Robinson, for example, seems incorrect when in discussing changes in the elasticity of demand for individual sellers she states without qualification that a cyclical decrease in demand ". . . is likely to be accompanied by a reduction in elasticity in the case of durable goods, the replacement of which can be postponed to better times. . . ."[24]

The same general objection applies also to certain complementarity cases (*e.g.*, where a price reduction for electricity encounters a less elastic demand in depression due to the necessity of purchasing comparatively costly electric appliances if consumption is to increase materially); to cases of derived demand (where the price reduction of raw materials or intermediate goods may be ineffective unless the reduction is passed along to buyers of the ultimate product); or to some luxury products (the purchase of which may be largely discontinued by the previously elastic portion of the market). None of these situations invalidates Harrod's thesis save where, as stated, sellers consider primarily the demand for the general product rather than that for their particular, differentiated variety of it.

9. It would be gratifying if in conclusion one were able to write that "on balance," the principle of diminishing elasticity of demand is true or is false. Such a conclusion, unfortunately, seems out of the question; for the issue cannot be determined by a counting of the number of pros and cons discoverable. This discussion may be summarized by pointing out: (a) the common-sense argument advanced by Harrod in support of his own thesis (*i.e.*, that the amount of attention paid by buyers to price

[23] Galbraith, for example, in "Monopoly Power and Price Rigidities," *Quart. Jour. of Econ.*, May, 1936, states (pp. 463-464) that where demand for durable goods declines because of depression the "market comes to be composed more and more of very able and very needy buyers. Demand is less rather than more elastic."

[24] Joan Robinson, *op. cit.*, p. 73.

varies directly with their affluence) remains the best argument for it; the cyclical behavior of advertising, on *a priori* grounds at least, seems to add little or nothing to his proposition. (b) Additional support may be found in the introduction of product innovations in depression years. (c) Objections to his doctrine include the stability of transport rates, the incidence of reëmployment, the possible effect of a decline in the number of sellers during the slump, inertia of buying habits, the technical possibility that the shifting of buyers between high and low quality goods may result in less elasticity than previously, and possibly the existence of debt as a force tying buyers to sellers. (d) The cyclical incidence of various forms of monopolistic behavior does not invalidate the thesis, but measurements of the degree of monopoly suggest that its influence is not predominant. (e) The importance of the character of seller estimates of buyer (and rival seller) reactions to price changes must be emphasized, but in polypoly and in some oligopoly cases sellers may over- or under-estimate changes in the elasticity of buyer attitudes. Yet what the sellers think about changes in elasticity is what really matters.

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## OBJECTIONS TO THE 100 PER CENT RESERVE PLAN

Certain objections to 100 per cent reserves are commonly overlooked. In case of bank credit, the real lenders are the depositors including, notably, the recipients of checks. It is these whose convenience waiting is combined and coördinated by the banks and made available to borrowers who pay for free banking service to depositors. The 100 per cent reserve scheme would make this free service impossible unless subsidized and might conceivably bring disappearance of deposit banking. Subsidization objected to; perpetual government debt as means to idea of 100 per cent objected to. Why precisely 100 per cent? A sacred number? Possible resulting growth of new type of financial institution through which we could still get deflation. Why henceforth deprive depositors of possibility of free banking service?

A number of economists who favor a managed currency, with the idea of promoting stabilization of the general level of prices, have accepted—a little too uncritically, I think—the idea of 100 per cent reserves. Objections which I cannot but believe have some importance, seem to have been generally overlooked.

One of the principal features of commercial banking, as we know it today, is free service to depositors, whereby business can be carried on by check and the clerical work of transferring credits from the makers of checks to the depositors of checks is done without fee—though the depression has brought in, to some extent, the service charge. It is because the banks have been able to "lend more than they have," because, in short, they have not been compelled to maintain a 100 per cent reserve, that they have been able to render this service to depositors without charge.

Of course the banks do not really lend more than they have, except as intermediaries or agents for the real lenders. What the banks do is to bring borrowers and lenders together. And the lenders are the bank depositors. Let us suppose the banks to lend, in the aggregate, several times as much money as they have on hand. The borrowing accomplishes nothing for those who receive the deposits until they use their newly acquired credit for the purchase of goods, by writing checks on this credit. When they have done this, they no longer have claims on the lending banks. But the recipients of their checks have these claims. Clearly, the banks could not thus lend more than they have on hand and have the lending mean anything, if the recipients of the checks drawn on this credit were, every one of them, to insist at once upon taking the money out of the banks. *It is the recipients of the checks,* therefore, *who are really the lenders.* They have given up tangible goods or services and are *waiting* for payment. For the checks they have received are but claims on the banks. And the recipients of these checks are still but claimants on the banks after the checks have been turned in, until they have actually drawn out the money owed to them or until they have, in their turn, made purchases and passed to others the claims they hold on the banks. These others then become the claimants on the banks. If all the borrowers of all the banks failed to repay, is it not

clear that depositors, even with our present limited deposit guarantee law, must lose? Is it not perfectly clear, therefore, that all of the borrowers (including drawees of commercial drafts) are the debtors, through the banks as intermediaries, of all the depositors?

The reason that bank depositors are willing thus to place their funds at the disposal of borrowers is that this lending costs them nothing. On the contrary, they reap an advantage from it. For thereby depositors avoid having to carry money in their pockets or to put it in large amounts into safes, with the consequent trouble and risk. Furthermore, no one of them has to remain a depositor—and, therefore, a lender—any longer than he chooses. For whenever he finds it convenient to do so, he can pass his claim on his bank to another, by check, in return for goods, and then that other becomes the depositor and lender and the former lender is a lender no longer. "Likewise, any one such lender—not, however, all at once—can cease to be such by demanding the money owed him, from the bank, whereupon the depositor of that money or someone to whom that depositor has given a check, becomes a lender."[1]

It is not necessary, here, to go into all the qualifications and complications of the argument. A further brief statement will make sufficiently clear its bearing on the problem of 100 per cent reserves.

> Depositors are, in general, persons who wish to have available buying power which they can use at any moment. Yet, almost invariably, few of these depositors do spend all of their accounts at once. There is an interval of hours—days—a week—during which they remain creditors who have a right to draw but do not draw and do not spend. And when they have passed this right-to-draw to others, the others in their turn wait, according to their convenience, before spending or drawing. Each depositor is in the position of a lender only so long as convenience dictates. Yet, in the aggregate, since one after another takes up the position of creditor or depositor, there is a great deal of this convenience waiting or lending. And the institution of commercial banking enables this convenience waiting, combined and coördinated, to be put at the disposal of borrowers. No one depositor is a lender for much or for long. But all of the depositors, together and in series, make possible the lending by banks of more than they have cash on hand. . . . This intermediary and coördinating function of banks cannot, however, be carried on without cost. And the demand for loans is great enough to throw the burden of this cost entirely upon borrowers, who pay it, in interest, for loans which, usually, cost the ultimate lenders nothing.

If a 100 per cent reserve requirement, without some compensating subsidy, should make this free service impossible, the check might, con-

[1] This and a later quoted passage are from my book, *Economic Science and the Common Welfare*, 6th ed., Lucas Bros., Columbia, Mo., 1936, part 1, ch. 4, in which the subject of convenience lending is developed more fully. See, also, article in *Quart. Jour. Econ.*, Aug., 1910, entitled "Commercial Banking and the Rate of Interest" and chapter 2 of part 1 of my *Principles of Commerce*, Macmillan, New York, 1916.

ceivably, become almost altogether a matter of history. For if depositors must pay a fee for the service it may be that many or most of them will prefer to keep large sums of money in their pockets, cash drawers and safes, despite the inconvenience and the greater danger of robbery, and pay bills by cash instead of by check. At any rate, such a possibility ought not perhaps to be entirely overlooked.

When I urged this objection on an advocate of 100 per cent money, several years ago, in correspondence, I was met with the suggestion that, rather than yield to it, deposit banking should be *subsidized* by government. My own view is that the price system is too much interfered with and warped by subsidies already and that a further spread of the principle of subsidization, with the consequent possible introduction of political influences almost inevitably involved, should be looked at with very great suspicion.

The 100 per cent idea has been put into a fancy package that adds markedly to its superficial attractiveness. We are told that the banks can be provided with the required 100 per cent reserves in government issued paper money, in exchange for government bonds, and that thus our great and growing national debt can be liquidated. The subsidizing of the clerical services of banks to depositors will merely, it is said, take the place of the annual interest burden on the debt. Or it is suggested that the bonds, though not themselves money, may be counted in the 100 per cent reserves, the government to stand ready to substitute money for these bonds in case of need, yet meanwhile to pay interest on them.

But the subsidizing must, apparently, go on forever. The debt *might* sometime be paid. In the past, it has been the policy of the United States to pay off its debt. Are we now to adopt the defeatist attitude that our national debt can never be paid, or even nearly paid, in the ordinary way, and so attempt to abolish it as a formal bonded debt by substituting a perpetual obligation to subsidize deposit banking and to subsidize it to an unforeseeable extent?

Is there no way to make deposit banking adequately safe and stable without a 100 per cent reserve? Must it be *precisely* 100 per cent in money, regardless of other value back of deposits? Is this precise 100 to become another sacred number? And is 100 per cent the *only* way of effectively stabilizing the price level? Is 70 per cent, 40 per cent and every per cent other than 100 utterly incompatible with any effective stabilization?

But some of the advocates of a 100 per cent system may contend that no subsidization would be necessary. They may contend—and who can say with certainty that they are wrong?—that depositors in general would gladly pay the full cost of the bookkeeping and clerical work involved in deposit and check service, rather than be deprived of this service and that

depositors would thus continue to leave on deposit with commercial banks substantially the sums they now leave. They may argue that the relative safety and convenience of the use of checks rather than pocket money are so marked as to make most corporations and individuals that now use checking accounts continue to use them. They may even point to the fact that some service charges have been recently made by many banks because of the decreased demand for loans during depression, and claim that such service charges have not caused depositors to withdraw their deposits. And, of course, the bookkeeping and other expenses of checking service might be kept down through the limitation of the use of checks to fairly large payments. But whether depositors, during years of prosperity, would continue to be depositors as largely as in the past, while themselves paying for all the expenses involved, in the form of service charges, would seem to be problematical.

The provision of free service to depositors, by making use of their convenience waiting, may, indeed, be made dependent on some sort of government subsidy, in the hope of thereby somehow preventing an alternate inflation and deflation which can be prevented equally well or better, in all probability, in other ways. It is by no means likely that inflationary and deflationary movements can be prevented *merely* by establishing a 100 per cent reserve system.

Let us suppose the 100 per cent reserve system established and let us suppose, even, that the reserves are so controlled as to appear to warrant the hope—in the view of the 100 per cent advocates—of a stabilized price level and stable business.

Nevertheless, it would seem that there might still be possibilities of sharp fluctuations in potential spending.

Even though deposit currency, as such, is thus rigidly controlled, what is to prevent the development of institutions, in boom times at least, to take deposits *not subject to check* but which depositors are allowed to withdraw on short notice (say three or four days) with the understanding that these deposits may be loaned or invested and that the depositors are to receive interest. Such institutions might be able, then, to induce many commercial bank depositors to keep their commercial bank deposits at a very minimum, relying on their ability to withdraw funds on short notice, when needed, from the interest-paying institutions. Since all would not need these extra funds at the same time, such an interest-paying institution could ordinarily rely on a considerable constant fund which it could keep invested or loaned. In other words, even though non-checking deposits were subject to withdrawal on short notice, not all of these deposits and, indeed, probably only a fraction of the total, would have to be kept in ready cash.

Thus there *might* be reintroduced in regard to such non-checking deposits, the system of partial reserves which had been legally ruled out for

deposits subject to check. And it can easily be shown that deflation would then be possible through the oscillation of deposits in such institutions, very much as in the case of the deposits subject to check in commercial banks.

For such institutions, just as in the case of less-than-100-per-cent-reserve deposit banks, would be a means of economizing money, of making a limited amount of cash do more work; and so, in case of a withdrawal of the cash relied on for reserve, and the consequent loss of this economy, there would be an effect similar to the effect of deflation of our modern commercial bank credit.

I have sometimes tried to bring home to my students in "principles" the way in which the sporadic waiting of depositors is put at the disposal of borrowers, by showing how this could happen without any formal deposit system at all, if only the convenience waiting of some could be effectively combined and coördinated individually. Thus, in a class of 100, I may point out how I might secure a loan of $50 for ninety days if able to find some member of the class with that sum which he does not immediately want, but which he is likely to want at any time, provided there are others, in series, who can take his place as lender to me whenever he needs his money. Thereby each member of the class has his money whenever he needs it and yet I, too, have the money when *I* need it. Money which might have served the need only of A and, later, of B, C, *et al.*, now serves *my* need while continuing to serve theirs.

Assume now, a financial institution which accepts the money of A, B, C and the others, promising to pay each on very short notice, yet, because there are always some who for the moment do not want their money, lending it to W, X and Y. But checks are not used, we shall suppose, since the law is assumed to forbid checking deposits without 100 per cent reserves. So W, X and Y withdraw in actual money whatever they borrow. Then suppose the development of such an attitude of mind among the depositors that few of them longer dare to leave their money on deposit. In that case, the money so withdrawn can no longer be spent by others in the intervals during which its owners do not individually desire to spend it. In other words, the withdrawal of this money by frightened depositors would have a deflationary influence even though the money was not a reserve for any checking accounts at all.

No doubt we might attempt legislation prohibiting any individual or corporation from taking any money from others for investment except on the understanding that such money is in no case to be withdrawn on less than sixty or ninety days' notice, so that this money cannot be, in effect, available spending power for two persons at the same time. But such legislation, interfering so greatly with the individual liberty of choice of those who have money, does not seem very probable. And in the absence

of such legislation, is it so unlikely that depositors in commercial banks which not only are unable to pay any formal interest on checking accounts but must even make service charges, should reduce their commercial bank deposits to a minimum and endeavor to secure some interest elsewhere to offset these charges?

And, of course, any anticipation of a falling price level may affect the velocity of circulation of money, altogether independently of the considerations detailed above.

If, then, the possibility of undesired and unplanned deflation would still be with us under a 100 per cent reserve system, if the gain from such a system is highly problematical, if methods of control such as open-market operations, adjustment of interest rates, etc., would still have to be resorted to, if the 100 per cent system might require subsidization and might result in purposeful perpetuation of the national debt, and if adequate safety and control can be had as well with a smaller reserve as with the sacred 100 per cent, then why must we deprive depositors of the privilege of receiving a sort of interest (in the form of free banking service) on their deposits?

We have a banking system which has grown up, through the centuries, in a particular way. There is reason to believe that we can, through wisely planned control, adapt this system to the need for a fairly stable standard of value. Unless it can be shown that it is practically impossible so to adapt it as well as that the 100 per cent system can be and is likely to be a much more effective and satisfactory way of attaining this end, it would seem better to cease turning our attention to such a system and, instead, concentrate on the task of working out less revolutionary changes and techniques for attaining the desired stability.

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# 100 PER CENT MONEY—THE PRESENT STATUS OF THE 100 PER CENT PLAN

Renewed activity on behalf of the 100 per cent plan of monetary reform calls for a reëxamination of some of its implications. Earlier criticisms in respect to the portfolio problems which such a plan would impose upon banks have been met satisfactorily by appropriate revisions. A serious criticism may still be raised on the grounds that the successful achievement of the aims of the 100 per cent plan requires the abolition of all short-term lending. The only valid claim which can be advanced for the plan is its superiority over the present fractional reserve system as a means of avoiding monetary deflation during depressions. Credit shrinkage during depressions arises from (1) voluntary loan repayments by borrowers and (2) forced liquidation imposed by banks in search of liquidity and protection against bad loans. Present advocates of the plan generally would permit the time deposit departments of banks to lend on short-term. Such loans would be subject to the same forces which now cause fluctuations in the volume of credit. Only by abolishing all short-term lending can credit shrinkage be avoided during depressions. Moreover, to free the banking system from pressure of deposit withdrawals, time deposits must be converted into long-term obligations thus depriving savers of the limited liquidity of time deposits. Finally, it appears that most if not all of the valid aims of the 100 per cent plan may be achieved within the framework of our existing type of banking without giving up its advantages.

The 100 per cent reserve plan for monetary and banking reform has again been brought to attention by a recent revival of previous proposals of the plan.[1] It appeared in 1933 in mimeographed form as the "Chicago Plan" and afterward appeared, in 1934, in Professor Simons' *Positive Program for Laissez Faire* and in Dr. Lauchlin Currie's monograph on the *Supply and Control of Money in the United States*. Professor Irving Fisher, who embraced the plan, first published his version of it in 1935.[2] A number of papers discussing the proposal have since appeared. Although some of these have criticized the plan from the standpoint of the problems involved in putting it into operation, in general they have approved of its basic principles.[3] It seems appropriate at this time to review the present status of the 100 per cent reserve proposal and to evaluate its possibilities and its limitations.

The only legitimate claim which can be made for the 100 per cent reserve plan is that it furnishes a better way to introduce control over the

[1] Six well known economists, in February, 1939, invited other economists to join them in approving the 100 per cent reserve plan with the aim of submitting recommendations to the President and members of Congress as a basis for reform of the banking and monetary mechanism.

[2] *100% Money.*

[3] Among these should be mentioned A. G. Hart's "The 'Chicago Plan' of Banking Reform," *Rev. of Econ. Stud.*, vol. ii, pp. 104-116; James W. Angell's "The 100 Per Cent Reserve Plan," *Quart. Jour. of Econ.*, Nov., 1935; and Frank D. Graham's "Reserve Money and the 100 Per Cent Proposal," *Am. Econ. Rev.*, Sept., 1936. A modification of Simons' previous position is contained in his "Rules *versus* Authorities in Monetary Policy," *Jour. of Pol. Econ.*, Feb., 1936. Also Professor L. L. Watkins has examined the plan in his recent study of "Commercial Banking Reform in the United States," *Michigan Business Stud.*, vol. viii, no. 5, 1938.

supply of money than any which might reasonably be provided under the existing banking set-up. Much of the discussion of the plan, however, has dealt with the question of proper criteria for the exercise of control over the supply of money by the proposed monetary authority. To that extent, therefore, it is beside the point so far as the merits of the 100 per cent plan are concerned. Similarly, the arguments in respect to the advisability of attempts to introduce appropriate monetary control for promoting business stability contribute nothing to the analysis of the desirability of the 100 per cent plan. Any plan for monetary control, whether based upon the conventional fractional reserve system or upon the 100 per cent plan, presupposes some significant interrelation between the volume of money and business fluctuations. Although the nature of these interrelations is significant in developing standards for monetary management, it is not germane to a discussion of 100 per cent money as such.[4]

The real expectation of gain from this plan lies in the belief that it furnishes an effective way to free the volume of money, in the form of checking accounts, from the effect of changes in the volume of banks' earning assets occurring in the different stages of the business cycle. With 100 per cent money only open-market operations of the monetary authority can influence the volume of such demand deposits.[5] In contrast, the present fractional reserve system is subject to but limited control through the power of the present banking authorities to influence the volume of available bank reserves. Although present or easily adopted controls seem adequate to impose necessary restraint upon credit expansion, present attempts to avoid credit shrinkage during depression are necessarily limited pretty much to pumping excess reserves into the banks. To compel their use is, of course, another question.

In general, comments upon the 100 per cent money plan have indicated approval of the effort to remove control over the volume of effective money from the forces which determine the volume of banks' earning assets.[6] In its original version, the plan provided that banks should obtain the required cash, needed to bring their reserves against demand deposits up to the full

[4] A. H. Hansen, in *Full Recovery or Stagnation,* 1938, pp. 111-119, questions the economic advisability of placing the economic system in a "strait-jacket" of neutral money of which 100 per cent money is a variant.

[5] Other advantages claimed for the plan include (1) the elimination of the need for deposit insurance, (2) the avoidance of inequitable seigniorage profits by commercial banks on their "coinage" of bank money and, (3) to the extent that the monetary authority takes over government securities to provide banks with reserves, the abolition of part of the burden of the government debt. This last claim is especially faulty since someone would have to defray the expenses of handling checking accounts now met in part out of interest on government securities held by banks. Moreover since the seigniorage profits of banks are largely distributed to the general public in free services, including checking accounts, the claim that the 100 per cent plan abolishes gross injustices on this score loses most of its force. For an examination of such arguments see Watkins, *op. cit.*

[6] Exception should be made of Professor Hansen.

100 per cent, by the sale of earning assets to the federal reserve banks or to the monetary authority. This proposed procedure was criticized by Angell on the grounds that it would create serious portfolio problems for the savings or time deposit departments of the banks.[7] Not only would the banks lose their best assets (government securities) but they would also probably have to dispose of other securities and commercial loans to obtain the necessary cash. This would present the serious problem of putting the monetary authority into the commercial loan field. He proposed that this difficulty be avoided by permitting the monetary authority to advance the required currency to the banks in the form of a non-interest bearing loan secured by a lien upon all the bank assets. Such a lien would presumably be subordinated to the claims of depositors and would be extinguished slowly if at all. The latest version of the 100 per cent plan adopts Angell's suggestion that the monetary authority make a loan of cash, without interest, in place of the earlier suggestion of an outright purchase of bank assets. An alternative suggestion in the latest version would permit banks to count their government securities, up to a specified maximum, as cash reserves. Banks would be allowed to convert such securities into cash by making demand upon the government.

A second criticism of the original version of the plan had to do with the danger that "near money" in the form of time deposits might be used as media of exchange in avoidance of the limits placed upon the volume of demand deposits. To meet this problem it has been suggested that time deposits be converted into long-term obligations. This would have the further advantage of freeing the banks of any danger from runs. The latest version of the plan, however, fails to make any attempt to meet this criticism save merely to provide that time deposits should be withdrawn only upon "adequate notice." The advisability of abolishing time deposits altogether may be seriously questioned. The sponsors of the plan, in its latest form, must be well aware that the possibility of any popular acceptance of such a drastic modification in the banking system is most remote.

There is yet another criticism of the 100 per cent plan which has received less attention than it deserves. This criticism is based upon the fact that the plan cannot achieve its basic objective of freeing the money supply from variations corresponding to variations in bank loans and investments without abolishing the whole short-term loan market.

Since the only valid argument which can be advanced in favor of the 100 per cent plan is that it provides better control over the volume of money than can be had under the present banking system, it must be judged on this basis. In so far as it fails to free the monetary system from fluctuations in the volume of effective money which now exist under our present

[7] *Op cit.*, Hart anticipated similar difficulties.

system, the case for the plan is necessarily weakened. One must inquire into the circumstances under which the plan may be expected to achieve its objectives and the extent to which it can provide more adequate monetary control than could be obtained under the present system. Only then can the advantages of undertaking the rather sweeping changes be estimated.

It is well recognized that during the upswing of the business cycle, banks utilize unused reserves which have accumulated during the previous depression as a basis for an expansion of loans and demand deposits. This upward swing may be accentuated by borrowing or rediscounting at the central bank to obtain additional reserves. Although opportunity for multiple credit expansion on borrowed reserves may at times cause some difficulty in imposing credit restraint by means of the rediscount rate, there is little question but that the federal reserve system, in the exercise of its present powers, can normally impose sufficient restraint to avoid difficulty from this source.[8]

Although the recent influx of gold has raised excess reserves to such a point that the reserve banks are scarcely able to maintain contact with the money market, even this abnormal situation can easily be met either by legislation permitting the Board of Governors to increase reserve requirements beyond the present limits, or by Treasury action in sterilizing gold imports by purchasing incoming gold with borrowed funds instead of the issue of gold certificates, and by increasing its deposits of idle balances with the federal reserve banks. It is correct to conclude, therefore, that the 100 per cent plan offers nothing in avoiding undue expansion of credit that is beyond the power of our monetary authorities under the present system. It follows, then, that the peculiar advantages which can be claimed for 100 per cent money rest almost solely in the possibility of avoiding an undesirable and deflationary decline in the volume of effective money during depression. In fact deflationary monetary factors which added to the distress of general business depression during 1929-1933 are the primary reasons for the support of the 100 per cent money plan.

To what extent and under what circumstances can the 100 per cent plan avoid a shrinkage in the quantity of effective money during depressions? First, one must grant that it would provide a method whereby central monetary authorities might control the absolute volume of existing money in the form of currency and checking accounts. However, the volume of *effective* money does not necessarily coincide with the volume of currency and checking accounts in existence at any given time. If, for any reason, part of the existing money becomes impounded by hoarding or otherwise, so as to take it out of the channels of trade, that part is not *effective* in

[8] This is possible by virtue of the power (1) to impose direct limits upon the volume of security loans, (2) to raise reserve requirements, (3) to deal in the open market, and (4) to exercise direct pressure on banks relying excessively on borrowed reserves.

the sense that one normally uses the term in relation to prices. Thus any impounding of part of the money in actual existence may be said to have reduced by this much the supply of effective money just as surely as if it were extinguished altogether by a reduction in bank credit under our present system.

The proposed 100 per cent money plan, as commonly stated, would permit the present lending operations of banks to continue. In fact one of the arguments used to enlist the support of bankers and others is that the plan need not interfere with bank lending functions. What would be the probable results of the appearance of a depression with its decline in business prospects? First, some voluntary decline in loans must be expected. The disadvantage of holding stocks of goods in the face of declining prices results in the accumulation of idle cash balances in the hands of businessmen. If they are in debt they will reduce their expenses by repaying their bank loans. This will occur under the 100 per cent plan in the same manner as under the present fractional reserve system. Similarly, if bankers begin to fear for the solvency of depression-harassed borrowers, they will demand repayment of loans and deny renewal privileges, regardless of whether the 100 per cent plan or the present system is in use. Under the 100 per cent plan these reductions in loans, both voluntary and forced, result in an accumulation of demand deposits and currency in the hands of the lending department of the bank to an amount equal to the reduction in loans.

It follows, therefore, that loan reduction increases the excess reserves of the loan department, and the volume of *effective* money in the hands of the general public is reduced by an amount exactly equal to the shrinkage in loans. One is forced to the conclusion that there is nothing in the 100 per cent money plan, in its common form, which will prevent these fluctuations in the available money supply arising from changes in the willingness of borrowers to borrow and changes in the willingness of bankers to lend. In order that the 100 per cent money plan may provide any reasonable cure for fluctuations in the volume of money arising from the above causes, it becomes necessary to modify the ordinary versions of the plan with the additional provision that all short-term lending be abolished. Only in this way is it possible to gain freedom from changes in the volume of money in the hands of the general public. But such a drastic departure from conventional banking practices is certainly not contemplated by most proponents of the plan. Professor Simons, however, recognizes this problem and now holds that to avoid forced liquidation of bank credit during depressions it is necessary to convert savings and time deposits of the present banking system into investment trusts without the privilege of making short-term loans.[9]

[9] *Cf.* his "Rules *versus* Authorities in Monetary Policy" in the *Jour. of Pol. Econ.*, Feb., 1936.

Although Professor Simons is undoubtedly correct in his position that the benefits of the 100 per cent money plan cannot actually be enjoyed without the termination of the short-term lending powers of the banks, it should be noticed that even such radical changes will not necessarily accomplish his purpose. To deprive banks of their power to make short-term loans would provide the powerful industrialists with a strong competitive weapon which they would be quick to grasp. Their command over cash could be expanded by the sale of securities, either stocks or long-term bonds. They might then extend credit to customers and to firms from which supplies are purchased. A slackening in trade or a loss in confidence would result in a contraction of such credits and a consequent increase in hoarding by the lenders. Of course even now trade credit of this type plays an important part in caring for the financial needs of weaker business units in the economic chain. To prohibit banks from making short-term loans must inevitably tend to drive a large volume of such borrowing into the field of trade credit. Moreover, the prohibition of short-term lending by banks would drive many business houses into the arms of the finance companies. It would indeed be a great day in the development of finance companies should the 100 per cent plan, implemented with a prohibition on short-term loans by the banks, be actually put into operation. But it would be intolerable to have tried to furnish the community with a controlled currency only to find the attempts failing because of an escape of short-term lending into the hands of finance companies and trade creditors.

It would be necessary, therefore, to abolish short-term lending not only on the part of banks but also by finance companies and industrial concerns. But to do this would deprive a multitude of small and middle-sized concerns of opportunity to obtain financial aid as occasions arise. The competitive advantage over small firms of the large firm, able to issue securities on favorable terms, would become even greater than at present. It is one thing to say that equity financing ought to be promoted as a desirable means of avoiding forced liquidation during depressions.[10] It is quite another thing to accomplish this for the small firm.

But were the 100 per cent plan, with rigid restrictions on all short-term lending, ever actually to be put into effect, its power to avoid shrinkage in the volume of *effective* money would still be limited. For instance, it would certainly prevent business-men from voluntarily reducing their borrowings in time of depression. But it could in no way prevent these same business-men from accumulating idle cash balances. Such hoarding, without question, would be responsible for the impounding of as much purchasing power as would normally be lost by voluntary loan reductions. It should be clear, therefore, that under no circumstances can the 100 per

[10] *Cf.* Simons, *A Positive Program for Laissez Faire*, p. 39.

cent plan do more than free the money supply from forced credit liquidation imposed by the banks.[11]

The advocates of the 100 per cent plan are especially impressed by the possibilities it offers during depression of freeing the banking system from deflationary credit shrinkage arising from deposit losses and bank failures. This credit shrinkage takes the form of both loan reduction and the sale of securities. Without question, during periods of acute depression, like that of 1929-33, such forced credit liquidation may become a serious thing. But here again, the 100 per cent plan, as most commonly advocated, offers little protection. Unless savings and time deposits are abolished and converted into long-term obligations it is still possible that a loss of confidence in a bank by the public might induce a slow run which would impose heavy pressure upon the bank. Such pressure could not be withstood unless the bank in turn could reduce its loans or dispose of securities to other banks or to individual investors. In order to provide adequate protection against forced liquidation of bank credit, it is necessary, therefore, that time depositors be deprived of the limited liquidity afforded by the usual form of time deposit. Moreover, depressions generate adverse trade balances in certain areas. To meet these adverse trade balances not only are demand deposits drained out (under the 100 per cent plan as well as under the present system) but time deposits, if allowed to exist, would also be utilized. To avoid such involuntary runs upon banks in depressed areas it is necessary, therefore, to abolish time deposits or convert them into long-term claims not subject to payment notice.

In summary, it appears that the 100 per cent plan offers little or no improvement in limiting credit expansion in boom times over the methods of control easily available under the existing banking system. Its only valid claim to adoption lies in the possibility that it will afford a means of avoiding deflationary shrinkage in the volume of money during depressions. Although it is impossible to prevent a voluntary reduction in *effective* money by business-men who will proportionately increase their hoarding if denied the privilege of reducing their borrowings, it seems probable that monetary shrinkage arising from forced liquidation of credit may be eliminated under the 100 per cent plan by abolishing all short-term lending and all time and savings deposits carrying the right to be converted into cash within any reasonably short time. The price of the 100 per cent plan in genuinely effective form is the complete abandonment of the right of

[11] Advocates of the 100 per cent plan would dismiss this whole argument by saying that the monetary authority could offset the effect of such credit shrinkage by an expansion of open-market operations. They neglect the fact that under the existing fractional reserve system open-market purchases by the reserve banks tend to increase deposits of individuals and firms, as well as the volume of bank reserves, to the same degree as if carried on under the 100 per cent plan.

business-men and others to obtain short-term capital and the right of savers to liquidity in their holdings. Without a short-term loan market a large part of the existing liquidity of long-term securities would be lost. While granting that in times of acute depression and panic the exercise by depositors of their privilege of converting deposits into cash may cause deflationary credit liquidation, one may still insist that the disadvantages and inconveniences to savers arising from an almost complete loss of liquidity can hardly be dismissed as inconsequential. One may likewise insist that the existence of a short-term loan market furnishes economic advantages in the form of flexibility which must be weighed against the advantages expected of the 100 per cent plan.

It is pretty generally agreed that the 100 per cent plan is by no means the sole method of avoiding forced liquidation arising from depression deposit shrinkage. Experience of Canada and England with strong branch-banking systems indicates that it is entirely possible to operate a fractional reserve banking system and still escape forced liquidation arising from currency hoarding and withdrawals due to sectional adverse trade balances. Moreover, such systems seem able and willing to substitute security holdings to replace loan shrinkage resulting from loan reductions due to voluntary repayment by borrowers and forced liquidation due to the banker's fear of borrower insolvency. Large, widespread branch-banking systems are able to do this mainly because of their relative freedom from deposit losses in depression and their greater immunity to failure.[12] In spite of the unpopularity of branch banking in some circles in the United States and the genuine difficulties which would be encountered in attempting to develop nation-wide branch systems similar to those in Canada, one can hardly avoid the conclusion that such a method of preventing forced liquidation of credit is to be preferred over the much more drastic method imposed by an effective form of the 100 per cent plan.

Even without the adoption of branch banking it is not entirely impossible to free our present banking system from a large part of the danger of runs and forced liquidation. Improvements in banking practices, better management of banks, adequate capital, appropriate amounts of secondary reserves, improved facilities for meeting emergencies by converting assets into cash through borrowing upon non-eligible paper at the federal reserve banks, the introduction of federal deposit insurance with more careful supervision, all contribute substantially to the ability of the unit bankers to meet depression without resorting to forced liquidation of credit.

[12] Canadian banks during the depression (1929-33) showed a decline of deposits of about 20 per cent. The joint stock banks of England and Wales showed a deposit decline of 8.5 per cent between 1929 and 1931. Neither banking system showed any indication of forced liquidation due to fear of runs. In both, reserve ratios fell slightly and in both, banks were "loaned up." In the United States, member bank deposits declined during the period from 1929-33 by 33⅓ per cent.

The choice presented by the 100 per cent plan is not such a simple one as its proponents would have it seem. Far from permitting banks to carry savings and time deposits and to continue "to lend on short term,"[13] the plan requires the abolition of both of these privileges. In contrast, equal freedom from forced liquidation arising from deposit withdrawals can be achieved by branch banking and to a large extent by improvements in the existing unit banking system. In the last analysis the 100 per cent plan, therefore, offers to accomplish only one thing which seems incapable of being accomplished with equal facility under the fractional reserve system. It does properly promise to rid the economic community of danger of a decline in the volume of demand deposits due to fear of borrower insolvency during depression. But to accomplish this it requires that all short-term lending of every sort be abolished, and that savers be deprived of income-earning deposits bearing withdrawal privileges. When viewed in this light the claims made for the 100 per cent reserve plan lose much of their glamour.

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[13] Graham, *op. cit.*, p. 440.

# RAILROAD COSTS IN RELATION TO THE VOLUME OF TRAFFIC

The fact that for the railroads, as for any enterprise, the cost of production is affected by the volume of product merits some further consideration. This is true particularly with respect to the *relative* variability of the several items of cost. When the four main divisions of expense for the Class I railroads are compared with the variations in traffic volume over the period from 1922 to 1938, it is found that the items which vary most closely with traffic are actually those which have commonly been presented as comprising the largest "constant" components (and conversely).

This failure of the facts to support the common pronouncements results from the implicit assumption of standards which are essentially rigid. This assumption, and the pronouncements based upon it, do not hold for periods longer than approximately a month. When considered over a longer period the variable element in all operating costs stands out as the dominant characteristic. This has some significance in connection with the doctrine of increasing returns; for the extent to which costs are variable directly affects the increase in returns, as the volume of traffic increases.

The point has been made frequently that fixed or constant costs absorb an abnormally large portion of the income of a railroad. The term "constant costs," as used here, refers to those elements in the expenses of a railroad which are essentially independent of, or not functionally related to, the volume of business handled. This constant characteristic has been pointed out particularly with respect to maintenance expenditures, and general expenses. Ripley has said ". . . only about two-thirds of the total expenditures of a railroad are applied to operation, the remaining third being devoted to capital account. Moreover, of these two-thirds of the total applied to operating outlay, only about one-half responds to *any* change in the tonnage, the other half being constant up to a certain point."[1] What this point is Ripley does not say. He admits that the statement implies a given standard of service, and maintenance, as well as a given stage of technological development, but apparently does not consider it necessary to develop the point. That the "constant costs" grow with the growth of traffic over a period of years, however, is implicit in his contention that they remain about two-thirds of the total.

The use of the term "constant" in referring to any costs is dangerous because it suggests an invariability which does not exist, even for relatively short periods. Moreover, no costs are altogether independent of the volume of business. Given a certain volume of business, on the average, for a period of time, then certain expenditures will be made whether that volume of business is moving at the moment or not. But in any business the cost of production is affected by variations in the volume of product; and this is true for *all* costs when the variations are large, or extended over a considerable period of time. Railroads are not essentially different from other enterprises in this respect.

The difference in variability among the several elements of cost is essentially relative. The relation of costs to the volume of traffic may be either direct or indirect. This more accurately states the difference between

[1] W. Z. Ripley, *Railroads, Rates and Regulation,* pp. 53-55; italics mine.

the so-called constant costs and the acknowledged variable elements. In the long run this difference tends to lose significance. Lorenz goes to some pains to make this clear in his study of out-pocket-costs (p. 2).[2] What have been considered frequently as constant costs cease to be constant as soon as the basic period of comparison assumes any appreciable length. Lorenz also makes clear the relation between the ratio of "constant" to variable costs and the density of traffic.[3] Clark has pointed out that what these statements with regard to the relative constancy of railroad costs really mean is "that *certain kinds of variations in traffic, limited in amount and duration,* do not affect the capital investment at all, while their effect on operating expenses is as if half of them varied in proportion to traffic and half remained constant."[4] Clark reached the further conclusion that this constancy of costs obtains with regard to "month-to-month fluctuations, but for no other type of movement."[5]

The purpose here is not so much to show that the earlier pronouncements regarding the constant character of railroad costs must be modified in the case of longer range fluctuations in traffic volume than month-to-month, but, more particularly, to consider the *relative* fluctuations of the four main divisions of expense—namely, Maintenance of Way, Maintenance of Equipment, Transportation, and General Expenses—and to suggest possible causes for the variations noted. In answer to the contention that "true costs," rather than money actually spent, must be considered in a comparison of this sort, it may be suggested that the two tend to coincide when a period of sufficient length is taken."[6]

Accordingly, an examination, will be made of these four divisions of expense covering the period 1922 to 1938, inclusive. This interval includes a period of substantially normal business, from 1922 to 1929, when fluctuations in the volume of traffic were only such as must be expected in the normal course of events; and a period of violent change, characteristic of the crisis phase of the business cycle. These periods give an opportunity to compare the relative fluctuations in the different expense items under both normal and abnormal conditions, so that conclusions can be achieved in the light of both sets of conditions. General data are available over a much longer span of years; but the present analysis was restricted to the interval indicated in order to secure a background which would be free from the disrupting influence of the World War and the crisis which immediately followed.

[2] *Out-of-Pocket Cost as a Factor in Determining Freight Rates,* p. 2.

[3] *Ibid.,* p. 14. *Cf.* also *Quart. Jour. of Econ.,* vol. xxi, no. 2, p. 283.

[4] J. M. Clark, *Economics of Overhead Costs,* p. 259. Italics the author's.

[5] *Ibid.,* p. 274.

[6] By "true costs" is meant what would have to be expended, on the average, in the long run, thereby taking into account temporary deferments. However, the word "actual" appears in the pronouncements to which exception has been taken.

In Table I below are given, for the Class I railroads of the country, the volume of traffic handled,[7] and the expenses incurred under the four divisions indicated above, from 1922 to 1938, inclusive. In Table II these figures have been reduced to relatives, based on the arithmetic mean of each division of expense.[8] These relatives have been plotted on Chart I. The volume of business handled by the railroads rose sharply from 1922 to 1923. There was a slight recession in 1924, after which there was a

TABLE I
SELECTED OPERATING EXPENSES AND TRAFFIC VOLUME,
CLASS I RAILROADS, 1922–1938

| Year | Volume of traffic (Traffic units)[1] | Maintenance of equipment and stores | Maintenance of way and structures | Conducting transportation | General expenses |
|---|---|---|---|---|---|
| | | | (000 omitted) | | |
| 1922 | 374,755,310 | $1,252,517 | $728,664 | $2,149,764 | $156,705 |
| 1923 | 450,683,823 | 1,465,156 | 813,689 | 2,321,283 | 162,057 |
| 1924 | 424,506,198 | 1,260,020 | 792,678 | 2,151,979 | 167,819 |
| 1925 | 449,764,484 | 1,259,835 | 816,443 | 2,138,310 | 175,529 |
| 1926 | 479,224,012 | 1,283,091 | 866,819 | 2,181,517 | 184,390 |
| 1927 | 462,376,668 | 1,219,052 | 868,581 | 2,136,987 | 191,081 |
| 1928 | 464,516,527 | 1,166,942 | 837,906 | 2,069,927 | 188,191 |
| 1929 | 478,395,696 | 1,202,912 | 855,355 | 2,079,954 | 193,887 |
| 1930 | 410,264,413 | 1,019,265 | 705,471 | 1,848,184 | 191,237 |
| 1931 | 331,119,300 | 816,953 | 530,613 | 1,543,744 | 181,524 |
| 1932 | 250,948,053 | 618,941 | 351,179 | 1,157,774 | 155,569 |
| 1933 | 265,653,690 | 598,709 | 322,286 | 1,077,982 | 143,841 |
| 1934 | 286,203,816 | 637,906 | 365,300 | 1,164,066 | 161,525 |
| 1935 | 300,512,504 | 681,887 | 393,967 | 1,253,113 | 142,974 |
| 1936 | 361,666,835 | 783,000 | 454,810 | 1,401,187 | 157,281 |
| 1937 | 385,275,683 | 826,709 | 495,594 | 1,504,642 | 145,345 |
| 1938 | 311,713,089 | 676,507 | 420,147 | 1,356,816 | 127,517 |

Data from Interstate Commerce Commission, Statistics of Railways.
[1] A traffic unit is composed of a ton-mile plus a passenger-mile.

reasonably steady increase until the advent of the depression in 1929, with a minor sag in 1927. There were variations from this picture in the case of individual railroads; but this was the general course of events for the Class I railroads as a whole, as presented by the statistics of the Interstate Commerce Commission.

If the variations in the several divisions of expenditures chosen are examined for this period, some interesting relationships are disclosed. Con-

[7] The volume of traffic is expressed in traffic units, composed of one ton-mile plus one passenger-mile.
[8] If the relatives are based on the year 1922, instead of the mean, the deviations noted become more pronounced.

sidering first the relation between Maintenance of Way and Transportation (C.T.) expenditures, if it were true, without the qualifications imposed by Professor Clark, that Maintenance of Way expenses are composed largely of costs which are constant, whereas the Conduct of Transportation comprises costs incurred directly in the handling of the traffic and therefore reflecting changes in the amount of business, Maintenance of Way expenditures should fluctuate, if at all, less vigorously, and more inde-

TABLE II
RELATIVE VARIATIONS IN SELECTED OPERATING EXPENSES AND TRAFFIC VOLUME, CLASS I RAILROADS

| Year | Volume of traffic | Maintenance of equipment and stores | Maintenance of way and and structures | Conducting transportation expenses | General expenses |
|---|---|---|---|---|---|
| 1922 | 98.3% | 127.9% | 116.5% | 123.8% | 94.4% |
| 1923 | 118.2 | 149.5 | 130.2 | 133.6 | 97.5 |
| 1924 | 111.2 | 128.7 | 126.9 | 123.8 | 100.9 |
| 1925 | 117.7 | 128.6 | 130.8 | 123.2 | 105.5 |
| 1926 | 125.6 | 131.0 | 138.8 | 125.4 | 110.0 |
| 1927 | 121.1 | 124.4 | 139.1 | 123.0 | 114.9 |
| 1928 | 121.5 | 119.0 | 134.3 | 119.2 | 113.2 |
| 1929 | 125.2 | 122.9 | 137.0 | 119.6 | 116.5 |
| 1930 | 107.7 | 104.0 | 113.0 | 106.3 | 115.0 |
| 1931 | 86.8 | 83.3 | 85.1 | 88.8 | 109.2 |
| 1932 | 65.8 | 63.1 | 56.2 | 66.6 | 93.6 |
| 1933 | 69.6 | 61.1 | 51.7 | 62.1 | 86.6 |
| 1934 | 75.1 | 65.1 | 58.5 | 67.1 | 97.2 |
| 1935 | 78.8 | 69.6 | 63.1 | 72.2 | 86.0 |
| 1936 | 94.8 | 79.9 | 72.8 | 80.6 | 94.6 |
| 1937 | 101.0 | 84.4 | 79.6 | 86.6 | 87.4 |
| 1938 | 81.7 | 69.0 | 67.3 | 78.1 | 76.7 |

NOTE: Relatives are based on the arithmetic mean of the respective expense items for the entire period. Computations have been made by slide rule.

pendently of fluctuations in traffic volume, than do C.T. expenses. An examination of the chart, however, shows that the opposite is actually the case. C. T. expenses fluctuate less than either traffic volume or Maintenance of Way expenses; and, while C.T. expenses show some relation to the general pattern of fluctuations in business handled, variations in the volume of traffic are followed much more closely by Maintenance of Way expenses. For the whole period under consideration, fluctuations of C.T. expenses cover a range of 63.3 per cent, whereas fluctuations in Maintenance of Way expenses cover a range of 87.4 per cent. It may be argued that this comparison is not good because it includes the period of the depression, which is characterized by abnormal relationships, whereas the statements regarding the relative constancy of the various cost items assume normal conditions. If, however, attention is confined to the period from

1922 to 1929 inclusive, the results are substantially the same. Between 1922 and 1929 the volume of traffic increased from 374,755,310,000 traffic units to 478,395,696,000 units, or by 27.7 per cent (there were intermediate fluctuations which will be considered presently). During this same period Maintenance of Way expenses increased from $728,664,000 to $855,355,000, or by 17.4 per cent; but C.T. expenses declined over these years from $2,149,764,000 to $2,079,954,000, or by 3.2 per cent, thus indicating not only a divergence in trend from that of business handled, but also a much smaller amplitude of fluctuation than either the volume of traffic or Maintenance of Way expenses.

Maintenance of Equipment expenditures follow closely the pattern of C.T. expenses for the period as a whole. There was a sharp increase from 1922 to 1923, with the increase in business, after which there was a steady decline (except for a slight rise in 1926 with the business bulge of that year), which was greatly accentuated with the advent of the depression, reaching a bottom in 1933.

If attention is directed next to General Expenses, which have been regularly regarded as the most nearly constant of any group of operating expenses, and almost totally independent of traffic volume, it is seen that they increased over this period (1922 to 1929) from $156,705,000 to $193,887,000, or by 23.7 per cent, corresponding more closely to the net change in business handled than any other group of expenses!

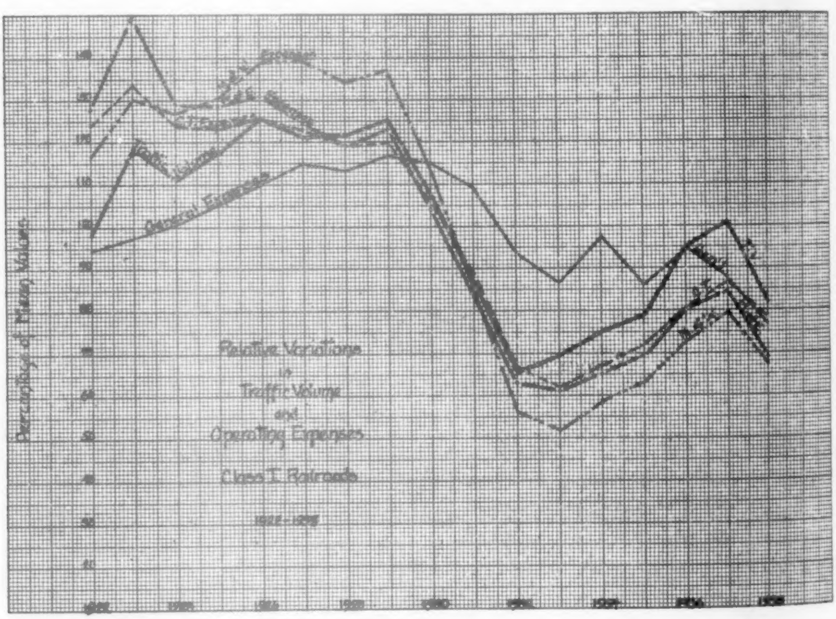


CHART I

With respect to the intermediate (year-to-year) fluctuations, the correspondence between General Expenses and traffic volume is not as close as for the period as a whole; but it is, even so, much closer than the correspondence between C.T. expenses and traffic volume for the period from 1922 to 1929. The increase of approximately 20 per cent in traffic handled between 1922 and 1923 was accompanied by increases of three per cent in General Expenses, 10 per cent in C.T. expenses, 14 per cent in Maintenance of Way expenses, and 21 per cent in Maintenance of Equipment expenses. Here Maintenance of Equipment leads in correspondence to traffic, and General Expenses show least variation, with C.T. expenses next. Between 1923 and 1924 there was a drop in business of seven per cent. All the main divisions of expenses showed a corresponding reversal of trend, except General Expenses, which continued to increase. Equipment expenditures showed a more than proportionate drop, amounting to nearly 20 per cent; while Maintenance of Way expenses showed the least decline, of approximately three per cent. C.T. expenses more closely paralleled the fluctuations in business. During the next two years, however, when traffic increased 14 per cent, C.T. expenses and Equipment expenses each showed a net increase of only about two per cent, whereas Maintenance of Way expenses increased nearly 12 per cent, and General Expenses increased by about the same amount, a much wider fluctuation, and a much closer agreement with the change in traffic volume. The following year General Expenses moved contrary to the change in volume of business; Maintenance of Way expenses were practically constant; and Equipment expenses showed the closest approximation to the change in traffic, with C.T. expenses next. Between 1927 and 1928, although business showed a slight increase, all groups of expenses declined, the maximum relative decline occurring in Equipment expenditures, with Way expenses next. From 1928 to 1929 traffic increased nearly four per cent, General Expenses increased in the same proportion, Maintenance of Equipment also; Maintenance of Way increased between two and three per cent, and C.T. expenses approximately 0.4 per cent.

These yearly variations in expenses, if not in direct contradiction, certainly offer little support to the usual pronouncements with regard to relative constancy. The rise in General Expenses over the period from 1922 to 1929 inclusive must be attributed, in part at least, to the increase in the cost of maintaining the highly centralized control, which was developed on the railroads in those years, with an increasing volume of business. There was also an increase in wage rates in this branch of the service with the spread of employee organization. This improved, centralized control in turn accounts in part for the downward trend in C.T. expenses which has been pointed out above. C.T. expenses constitute the largest division of expenditures in actual dollars disbursed, and, therefore, offer a field of prime

importance in which the management can work for improved economy.

With the advent of the depression in 1929 the volume of traffic fell continuously until it reached bottom in 1932. There followed a reasonably steady increase over the next three years, which was augmented in 1936 and 1937; so that by the end of the latter year the volume of traffic was slightly above the level of 1922, having risen from a low point of 66 per cent of the mean for the whole period. All divisions of expenses were severely curtailed as the depression developed; but certain groups have evidenced a change in their relation to variations in traffic volume when compared to the pre-depression period. For example, General Expenses have passed through a continuous series of fluctuations not characteristic of this item before the depression, and not in keeping with the trend in business. This is due to the operations of the federal pension system. Pensions constitute by far the largest single item in this group of expenses; and they have varied from approximately 33 million dollars in 1933 to more than 50 million dollars in 1934, to approximately 28 million in 1935, to over 37 million in 1936, to 17 million in 1937. Maintenance expenses of both Way and Equipment dropped from 1929 to 1932 in close conformity with the decline in business. But, whereas business turned upward in 1933, Maintenance expenditures continued to decline; and, while they have increased steadily since 1933, the rate of increase has been less than the rate of increase in traffic; so that in 1937, while the volume of business was slightly above the level of 1922, Way expenses were only 68.1 per cent of the 1922 figure, and only 80 per cent of the mean for the period. The situation is substantially the same with regard to Maintenance of Equipment expenditures, the level in 1937 being 66 per cent of the figure for 1922, and 84 per cent of the mean. C.T. expenses, while showing similar tendencies in the main, never dropped as low as the other two expense items, and in 1937 were 70 per cent of the 1922 level, and 87 per cent of the mean for the whole period, again exhibiting variations, relative to the other items, contrary to what would be expected on the basis of the general pronouncements, applying to monthly fluctuations. In 1938 business fell off approximately 20 per cent. All divisions of expense likewise declined, though in less proportion. The drop in Maintenance expenditures was greater, however, than for either C.T. or General Expenses.

This failure of the several cost items to conform to the accepted pattern in the matter of relative variations, when traced over a reasonably long period of time, is due to the effect of factors which do not become operative in the case of short-run fluctuations in traffic volume. The assumption of specific standards has been referred to above. Standards, however, are not specific or fixed over any extended period. Neither are the methods employed in performing the various operations which go into the production of rail transport. In considering the relative constancy of Maintenance

of Way expenses, for example, it is not pretended that there has not been some maintenance deferred during the period since 1929. As Locklin points out, this practice may give the appearance of variations which are not real.[9] What is claimed here is that the amount of maintenance which has been deferred cannot be measured from some standard presumed on the basis of expenditures made in 1929. Expenditures which may have been necessary then may not be necessary now because of changes which have taken place in the operations involved, and in the equipment to be maintained. The demand for labor in maintenance operations may be less today than it was in 1929, per mile of track or per unit of traffic; but this does not in itself signify that maintenance is being deferred, or that standards have been lowered.[10]

The question raised here is: how much of the variation in maintenance costs can properly be considered to result from variations in the volume of business done? The statement has commonly been made that cross-ties weather away rather than wear out with the traffic passing over them. This statement was originally based on conditions which obtained at the turn of the century. This is true today only after several items have been taken into account. Considerable sums are expended every year by the railroads for the treatment of ties by which their "weather" life has been greatly extended, thus enabling the use in some cases of softer woods than formerly. But the capacity and weight of rolling stock has increased with the increase in volume of traffic. Therefore, considerable additional sums are spent by the railroads every year for tie-plates. So, ties may not wear out with traffic today because of these additional expenditures to protect them. Not only are tie-plates in common use at present, but they have been successively enlarged to keep pace with the increasing wheel loads and the impact of higher speeds. Thus traffic changes have induced changes in Way expenses. As Clark points out, we may grant that certain deterioration is due wholly to weather; but it must also be granted that "*the amount of plant exposed to the weather* varies with the traffic.[11]

An additional point to which it is desired to call attention here has to do with the statement made earlier, that the effect of variations in traffic volume on costs may be either direct or indirect. It is true that "embankments are washed by rains, ditches become filled, rails and rail fastenings rust with exposure to the weather"[12] which is in no direct way connected with the volume of traffic moving over the road. However, there are usually different means available for maintaining the properties against these

[9] D. Philip Locklin, *Economics of Transportation,* p. 139.

[10] *Cf. Jour. of Pol. Econ.,* vol. xlvi, no. 5, p. 714. Increases in the weight of rail alone have resulted in considerable reductions in maintenance costs without any lowering of standards; so also has the mechanization of many operations.

[11] J. M. Clark, *op. cit.,* p. 230. Italics are the author's.

[12] Locklin, *op. cit.,* p. 138.

ravages of the elements; and the choice offered will be made in the light of the funds at hand, which *are* functionally related to the amount of business done. Embankments are washed by rains, and ditches filled irrespective of traffic movements; but the type of culvert or retaining wall constructed, or drainage installed, will depend upon the income provided for these purposes. The expenses involved in the maintenance of some of our big passenger stations and grounds constitute in some measure "putting on the dog" to attract traffic. The question of adequacy here may easily become a matter of available funds; and the available funds vary with the volume of traffic.

The distinction between "true costs" and dollars actually expended loses force because it is not fixed standards which determine the amounts properly spent, but rather the funds available which determine the standards that can be set up from time to time. The problem is further complicated by the impact of technological change, as already indicated. The fact remains that the relative constancy of the several divisions of cost, as usually stated, is not borne out by the data for any appreciable period of time.

The problem is essentially dynamic; and the method of analysis must recognize this fact if the results are to conform to reality. That there are factors, independent of variations in the volume of traffic, which affect railroad costs cannot be denied. But the conclusion seems warranted that the general pronouncements with regard to the *relative constancy* of the several divisions of operating costs can be accepted as reasonably accurate only within definite limits. When considered over any period longer than a month, the variable element in all operating costs stands out as the dominant characteristic. Nor do the main groups of costs stand to each other in any fixed relationship, except as they all tend to conform in some degree to the pattern set by the volume of business handled.

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# THE USE OF ECONOMIC PRINCIPLES IN THE TEACHING OF APPLIED SUBJECTS

Paper presented at a Round Table Conference of the American Economic Association, December 27, 1939.

Subsequent to Professor Hamilton's vigorous attack in 1919, many economists have supported his charge that economic theory has failed as a "unifying agent" for the "sprawling frontiers" of economics. A study of departmental course offerings and the textbooks widely used in upper-division classes gives considerable support to this criticism. Such courses have lost contact with their major objective—the application of economic theory—and have become adjuncts of the school of commerce rather than the social science of economics. Public Finance and Labor Problems are unfortunate cases in point. Courses and textbooks in specialized fields must go beyond mere descriptive, technical material and build upon the foundation of economic principles used as a kit of tools designed for the study of the operation of the economy as a whole. The lack of unity charge should be addressed to the specialist in applied fields rather than to economic theory. Any study of a phase of the operation of an economy as a whole can be illuminated by the use of economic principles, but systematic theory can never unify technical, structural, administrative studies of business—a rôle for which it was never intended.

## *Has Economic Theory Lost Its Rôle of a Unifying Agent?*

In 1919, Professor Walton H. Hamilton wrote:

> The task of a general body of theory in any subject is to give unity to its investigation. At present economics is badly in need of such a unifying agent. Its sprawling frontiers reach from value theory across money, taxation, and transportation to salesmanship, insurance and advertising. Each of these subjects has its own personnel. Those who seek truth in these remote fields of inquiry know little and care less for value theory. . . . As a result economics today tends to break up into a large number of overlapping but unrelated inquiries and to lose the unity which in times past has been its source of strength.[1]

Professor Wesley C. Mitchell voiced the same lament in 1925 asserting as an example that economic theory "plays a small rôle in our work as specialists in public finance. . . ."[2] Professor Willard E. Atkins continued the lament in 1935 stating:

> Part of the unrest has been indicated by the drift of teachers into business fields and into schools of commerce. From outside positions they have thrown back at the traditional economists the charge that their teachings are unreal.[3]

I quite agree with these writers that economic theory should be a unifying agent which specialists in the fields located on the periphery of economics could ignore only at the risk of placing in peril their reputation as specialists. The general body of economic theory, or economic

[1] Walton H. Hamilton, "The Institutional Approach to Economic Theory," *Am. Econ. Rev. Suppl.*, March, 1919, p. 312.

[2] Wesley C. Mitchell, "Quantitative Analysis in Economic Theory," *Am. Econ. Rev.*, March, 1925, p. 6.

[3] Willard E. Atkins in discussion: "Institutional Economics," *Am. Econ. Rev., Suppl.*, March, 1936, p. 251.

principles, should supply necessary analytical tools for specialized fields of inquiry or it must accept meekly criticisms that it is an exercise in logic with what Barbara Wootton has called an apple-pie world as its only subject-matter.[4] Economists must be prepared to meet the challenge both as experts in special fields of inquiry and as professors in the classroom. As students of economic science we should be interested in such a subject as *insurance,* not as a technique or art of business, but as an aspect of the operation of the economy as a whole. An economist, as distinct from a business expert, should be interested in *marketing* not as a business technique for the distribution of goods, but as an integral part of the economic process. The teaching of courses in the various fields of applied economics in American colleges has, over a long period of years, gradually become so dominated by the growth of business education that the connection between economic theory and the problems usually discussed in association with these subjects has largely atrophied.

### *Departmental Offerings in "Economics"*

An intelligent layman who examined the curriculum offerings of the usual department of economics, and as a follow-up explored the contents of the most widely used textbooks in each specific course listed, would certainly reach the conclusion that the criticisms of Hamilton, Mitchell, and Atkins were thoroughly justified, if teaching practices are an index of the content and methodology encountered on the "frontiers of economics." The customary catalogue statement, appended to the course descriptions of Public Finance, Labor Problems, Transportation, Monopolies and Trusts, Merchandising, Public Utilities, and the like, "Prerequisite—Principles of Economics," is usually a combination of academic ostentation and academic deceit. With a very slight tempering of phraseology courses such as International Trade and Commercial Policies, and Money and Banking, can be included in the list. To label these courses "overlapping unrelated inquiries in which economic principles play an unimportant rôle" is a legitimate characterization.

After completing his first course in principles, the average undergraduate majoring in economics leaves a field of inquiry that he never comes in contact with again in any penetrating form up to the day he graduates. In some institutions, and for some students, senior work in Economic Theory and the History of Economic Thought may bring him back once more to his half forgotten freshman or sophomore year, but more often he must enter the graduate school for a re-introduction to economic science. He never quite discovers an integration of his work in theory with that of specialized fields. The usual course offerings seem to be the unhappy illegiti-

[4] Barbara Wootton, in *Lament for Economics,* 1938.

mate offspring of a casual union of economic science with business technique. Small wonder that keen critics have been unable to discern evidence of a legitimate union. To sandwich a condensed school of commerce between an introductory course in Principles of Economics and a senior course in Economic Theory most certainly does create problems, and the unfortunate persons forced to teach under such conditions are very likely to drift away from economic principles to the arts and techniques of business. Stated concisely, my thesis in this paper runs something as follows: The customary courses in the applied economic fields have lost contact with one of their primary objectives—the application of economic principles—and have gradually become adjuncts of commerce rather than the social science of economics. Reflect for a moment upon two concrete examples in support of this thesis.

*Public Finance as an Example*

The evolution of that important subject, Public Finance, is, in my opinion, a modern tragedy in economics. From an origin as an integral division of Political Economy in Adam Smith and John Stuart Mill, it has evolved into a modern study in which as keen a mind as that of Professor Mitchell finds but an insignificant rôle for economic theory. Is it not possible that the rather widespread dissatisfaction with Public Finance textbooks is rooted in the failure of the authors to attack the subject with economic principles as sharp analytical tools? Was Professor Mitchell pointing out limitations of economic theory or the limitation of the specialist in public finance? Is the weakness of economic theory as a kit of tools inherent in that body of theory or is it a consequence of the development of public finance at the hands of its specialist? I can think of no field of inquiry in which economic theory has more to contribute than in the manifold aspects of the raising and expending of public revenues. In Marshall's *Principles of Economics,* the field of taxation is used for purposes of exposition more than twenty times, in many cases the analysis running for several pages. On page 413 he wrote: "There is scarcely any economic principle which cannot be aptly illustrated by a discussion of the shifting of the effects of some tax."[5] Try to reverse this statement by locating more than twenty penetrating applications of economic principles in any of the standard textbooks on public finance. The specialist in public finance fills his volume with extended presentations of the details of tax administration, the classification of tax systems, jurisdictional controversies, constitutional limitations, forms of public borrowing, budgetary procedure, and the like. It is necessary to peruse the table of contents and the index with great diligence to locate the few scattered paragraphs or pages concerned with vital economic problems.

[5] Alfred Marshall, *Principles of Economics,* 8th ed. (1925), p. 413.

Yet the subject fairly bristles with notable problems. Consider a few random examples: (1) the effect of specific taxes, especially highly progressive taxes, upon capital accumulation; (2) the consequences of public borrowing in competition with private borrowing upon the economy as a whole; (3) the economic importance of different elasticities of demand and conditions of costs with reference to a sales tax; (4) the different effects of different specific taxes and forms of public borrowing upon the distribution of wealth and the direction of production; (5) a comparison of the economic effects of a pay-as-you-go tax plan with a plan of public borrowing; (6) the consequences of the use of taxation as a means of redistributing the national income upon the functional controls of a capitalistic economy; and so on.

The possibilities for a text that will earn the label "The Economics of Public Finance" are most attractive. But what do we find? One of the recent texts gives only two pages of discussion of the effects of public borrowing upon the distribution of wealth and income out of over one hundred pages devoted to public borrowing as a whole. The same book gives only nine pages on the economic effects of public expenditures (most of which are descriptive rather than analytical) and one page on the effects of public expenditures on the redistribution of the national income, out of approximately one hundred and fifty pages on public expenditures. In a book of over six hundred pages, only twenty-one deal with the problem of shifting and incidence of taxes. I do not mean to be harsh in criticism of this one book; the same general deficiencies are encountered when competing volumes are examined. Also, if one approves the present typical college course in Public Finance as an offering in "economics," he will find the book I have used as an example rather well done. But if an economist desires to teach a course in which the field of Public Finance is examined with economic principles as a unifying agent, he must build his syllabus from the ground up, drawing from the writings of general economists and the praiseworthy special studies of such organizations as the Twentieth Century Fund. It will take time to evolve an Economics of Public Finance that will not be open to Professor Mitchell's criticism, but it can and should be done.

*Labor Problems as an Example*

A second applied field that has sadly neglected the use of economic principles as tools of analysis is that of labor problems. In the June, 1939, issue of the *American Economic Review* an extremely interesting communication by Professor Eleanor H. Grady outlines a unique method for teaching labor problems by the use of current news items.[6] As a device for

[6] Eleanor H. Grady, "Teaching Labor Problems by the Case Method." *Am. Econ. Rev.*, June, 1939, pp. 345-347. A personal note from Professor Grady informs me that I have

arousing interest and developing a critical attitude in the student, that brief communication is worthy of your sympathetic study. I was surprised to notice, however, that no reference whatever was made to the tying of economic principles to this interesting course in labor. Apparently this omission was not accidental, for at one place Professor Grady asserts: "Labor Problems may be given at almost any point in the college curriculum."

I sharply challenge such a statement. A descriptive course in labor institutions and the manifold aspects of industrial conflict *can* be given at any point, but a course that faces squarely the basic issues of labor problems must be built upon a firm foundation of economic theory. Study of the general problem of unemployment including employer, governmental, and trade-union methods for its reduction, must begin with a firm grasp of Say's law in its present-day dress. Witness the heated discussion of this economic principle growing out of Professor Keynes's *magnum opus*. No course in Labor Problems has earned a right to be listed as an offering in economics that discusses the Wage and Hour law without tracing its consequences in terms of the best wage and general distribution theory. Can such a law raise the general wage level? Why or why not? If it *will* raise that level, then what are the effects to be expected on capital accumulation, profits of enterprise, land utilization? If it will not raise that general level, but perhaps will aid one group of workers at the expense of other groups of workers (or at the expense of labor as a whole in the rôle of consumers), a different set of economic consequences opens before the student. The study of the struggle between the A. F. of L. and the C. I. O. introduces the problem of the elimination of skills with the progress of technology. What does this mean in terms of non-competing groups, wage structure, the distribution of the national dividend? The use of arbitration in the settlement of industrial disputes usually results in a compromise solution. What, if any, are the fixed consequences in terms of wage theory of a practice of fixing wages by compromise? The naïve handling of the problem of the incidence of the new Social Security taxes must give competent theorists a feeling of hopeless despair.

If we examine the widely used textbooks on Labor Problems do we find the bright light of scholarship directed upon these vital and interesting issues? No, we are confronted with chapter after chapter of descriptive material on the classification of trade unions, history of the labor move-

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misunderstood her meaning. It was her intention to emphasize new elements of her approach rather than describe her course in labor as a whole. However, since she stated clearly that labor problems could be taught at any point in the college curriculum, and at no point in her communication mentions the use of theoretical economics, I feel my interpretation is justified.

ment, structural aspects of unionism, functional aspects of unionism, experiments in industrial democracy, and similar topics. When the authors find themselves unavoidably faced with basic economic issues a few paragraphs or pages of the most general sort are inserted with almost no definite application to the real problem at hand. Surely there is an applied field that can be labeled "The Economics of Labor." Am I going too far in stating that it is almost a virgin field, crying for exploration and synthesis? The only attempt in this direction in textbook form with which I am familiar is found in Part III of Professor Pigou's *Economics of Welfare.*

Sufficient has been said to make my thesis clear. There is little to be gained by additional examples from such fields as Government and Business, Marketing, and Transportation. All instructors in economics have struggled with these courses in their experience as teachers of economics. Is the failure of economic theory to unify the applied fields an inevitable result of the limitations of that body of theory, or is the answer found in the surrender of the specialist to the popular clamor for, and growth of, schools of business and commerce? Why not strike out on a new road along which the kit of tools known as economic theory will be utilized in the study of the operation of the economy as a whole? It will take time, but the reward will be well worth the time and energy consumed upon the task. Upper division work in economic problems can become integral parts of a broad survey of the modern economy as a going concern. Professional economists, and students in the process of training, must of course know the facts of everyday economic life. They must be equipped with thorough knowledge of economic institutions and techniques. But as students of economics their task is not completed until this mass of material has been analyzed, by the direct application of economic principles.

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# TREATMENT OF CONTROVERSIAL QUESTIONS IN THE TEACHING OF POLITICAL ECONOMY

Paper presented at a Round Table Conference of the American Economic Association, December 27, 1939.

The teacher of political economy cannot be "neutral" in controversial questions, "giving all sides" and letting it go at that. Such questions are not isolated, but fit into a pattern of development which will be different for different teachers. The teacher is not so much an advocate of views as he is a reporter on observations. The honest teacher makes himself the ally of history as he understands it; believing that after all economics is an art rather than a science, he necessarily makes room for deliberate social purpose. The usefulness of quantitative methods should not blind us to the essentially qualitative character of the subject. Every great teacher of political economy had a thesis. Those who refused to take a position added little to thought or action, and are forgotten. "Indoctrination" does not imply neglect to explore and to refute. It means simply scrupulous inspection plus earnest recommendation.

In political economy, over a period, principle derives from practice, and not the other way round. Sanction follows social convenience. Evolution in doing compels evolution in doctrine. This does not mean that local and temporary and partisan interest can immediately alter received rules. And where there is a wider and more permanent change of advantage, there is still the celebrated lag which makes for gradual warping rather than sudden abandonment of old theorems. It is commonplace that a minority equipped with control of the social means of production may for long keep law and morals on its side. But in the economist's beloved "long run" we learn by living, and do not live by learning.

This is lesson number 1 in the teaching of political economy. Unless one recognizes that in economic life there is no absolute, and that trends in thought follow trends in performance, he is not attempting to study social behavior but is trying to define a theology. Writings reduced to something like system the elaborate opportunism which went by the name of mercantilism. After these coercive public policies had been eaten into by private initiative, the *laissez faire* philosophy was seized upon eagerly because it justified what was already familiar conduct. And now that individualist enterprise has grown out of all anticipated proportions, and thus taken on, inevitably, the collectivist character, the propriety of public control is again urged. This is historical development, with the unexpected becoming, after a time, orthodox.

There have been variants, of course, within the larger cycle. Consider the dissent from classical doctrine inspired by American geographical and economic conditions at the beginning of the last century. Here was a country not of decreasing but of increasing returns, in which accessions to population meant not resort to poorer natural resources but to richer, with the consequence of a larger product for each worker. Instead of growing economic stringency, as in old countries, there was progressive liberation. In place of attention to the division of labor, association of labor was the need. The

intervention of government, as in enactment of protective tariffs, was not regarded as meddlesome limitations of the individual, but was beneficial employment of united power. America was economically buoyant and not, like England, apprehensive. Before the eyes of the American was always potential surplus, not theatened reduction to mere subsistence. And so the despairing Malthusian principle of population and the forebodings of Ricardian rent were refuted by dwellers in the American Garden of Eden who had beheld the tree of life and not yet tasted its forbidden fruit. Contrast the Careys with the Mills. The former sped gaily up the rainbow, while the latter pair, not so clothed in light, tried to chart a prudent path ere dusk turned to darkness. Alexander Hamilton helped teach Friedrich List that the nation, as a political and economic entity, stood between the individual and the cosmos; it could serve its turn in promoting wealth and well-being, and so accepted dogma must be adjourned for the nonce.

Thus, in its historical sweep, all economic theory is grandly inductive—a million particulars gathered up, somewhat belatedly, into a few generalizations. Promptings to volunteer action, be they numerous enough and long enough continued, are after a time tolerated, are then expected, and end by becoming dominant. Erstwhile dissenters, when theory has come to their rescue, find themselves comfortable conformists, only to pass later into dictatorship which carries in itself the seeds of its own destruction.

If, then, there is constant change of practice, with validating doctrine at an interval behind, the teacher of economic principles has a permanent task of interpretation. How explain the new adventure in the light of the old axiom? Which experiments are evanescent, and which are destined to remake the rules? Which are light airs that merely ripple and feather the sea, and which is the wind that will bring the wave?

We often speak of "a controversial question" as though it were isolated in time, a thing to be decided on its separate merits. It is in this view that the teacher is enjoined to "give both sides," to "preserve an objective attitude." Doubtless there are such economic asteroids, as it were, floating in a universe, and not magnetically joined, so far as we can determine, to any larger mass. These offer the teacher an exercise in studied neutrality. But matters of larger moment, where strong beliefs are prompted by important interests, are not so disconnected. To the teacher aware of his subject, these belong in a sequence which he thinks he discerns, they fit into a pattern, they have their places in generalization. How may they be divorced from the train of events, the line of development, to which they seem to belong? It is a shallow and immature perception which regards relief legislation, gold standard, and anti-trust acts, for instance, as objects of scrutiny for their own sakes merely. A great teacher once told me how his self-esteem was destroyed. He had used three months in laying before a class the causes and course of the French Revolution. When he had settled back with some

satisfaction, the student who sat nearest his desk asked, "Well, Professor, was the French Revolution right or wrong?"

Any teacher of political economy likely to give his students anything believes he has observed certain tendencies, and tries to project these trends. In exposition he will not be guilty of sins of conscious omission. He will not want to put blinders on his students. He will treasure detail, explore doubts, probe contradictions, beg for refutation. But honesty will compel him to assign causes and seek for consequences. He has a theme, a rhythm runs in his head, he cannot be satisfied until there is a completeness, until the circle, to the best of his understanding, is closed. And in accordance with this intellectual method he will interpret the particular issue.

The notion that the teacher, especially of the elementary class, may be neutral is absurd on the face of it. Is the blind to lead the blind? The simplest fact, so called, can scarcely be conveyed without indicating the impulse behind it and the force which follows from it. Insistence that the teacher should never indoctrinate, should be an intellectual eunuch, has gained from emphasis upon the quantitative method in economics and other of the social sciences. The ambition to make economics an exact science prompts the exclusion of opinion. Qualitative judgments are to be eschewed, the relative is to be reduced to the precise. A census, a mere enumeration faithfully taken is supposed to disclose a result unsuspected, much in the way that obedient rubbing of the jar brought the genie. The symbols of a formula become the servants of truth, and a graph has authority in every peak and trough. Surmise gives way to certainty; "perhaps" and "probably" sink like the waning moon, while the blessed sun of "proof" rises in the opposite quarter of the heavens.

My own brief seduction to this view was speeded by my inability to understand the mathematics employed by the disciplinarians to whom I listened. I abandoned the exactitude which was enjoined and was ready, in an act of faith, to declare them miracle men. Disillusionment was swift as conversion, and doubtless appealed to firmer intellects than mine. A prominent and patently honest scholar who had been a leader in forming the Econometric Society counseled those who subscribed for his investment service to buy more common stock on the very eve of the crash of 1929. I should have allowed for accident. We are frail vessels, imperfect instruments of great purposes. With returning hope I listened to this gentleman's explanation to the subsequent meeting of the Association of how he came to be exactly mistaken. But the slide rule, which has been the emblem of the old faith, became limp, its graduations blurred beyond recognition. The rod of Aaron was flung down, and wriggled like a snake.

I have not time, if I had knowledge, to review the long discussion as to whether political economy is a science or an art. Nor can I expect you to be very interested in my unsupported notion that it is the latter, that design

for the future may be joined to derivation from the past. Economic determinism, which is the loose formula of the collectivist, means that prior conduct has a bearing upon subsequent development, but does not forget that what we do now helps to shape the compulsions under which we shall some day rest. The wish need not be impotent in economic affairs. Exhortation may be quite as powerful as the savings of large-scale production. There is the element of conscious control. Moral force may have its place beside magnitudes susceptible of more precise statement. Consider how one field after another, supposed to exemplify the action and interaction of almost mechanical impulses, has been invaded by extra-economic designs, so that the automatic has given way to the induced result. For example foreign exchange, sometimes pictured as an area in which insensate economic electrons collided, has been disarranged, even destroyed, by the passions of peoples. The value of gold, so universal as to be acknowledged almost intrinsic, has been pretty much abolished in the monetary sphere. It hardly forms any more even a standard of reference. We wonder whether the only values are not political rather than economic. I am not forgetting the economic causes which have roused and egged on the hates of nations, but am only saying that we may not neglect, in trying to discern the economic future, what stands in the foreground of the present. The tracing of a line on a map may enlist more expenditure of wealth than the building of power dams or the construction of railways. The enduring of hunger for the sake of a shibboleth may seem more desirable than full bellies. Resuscitated pagan deities may preside over economic forces with a sway vastly superior to any accountant's calculation of profit and loss. When Lenin arrived at the Finland station in Petrograd in 1917, for all that he was a Marxist, more had come to Russia than exhaustion from the war, more than a reminder of the dogma of class conflict.

If we may allow, then, that economic development has been and is quite as much an art as it is a science, why not prepare practitioners? The physical result of mixing pigments will be the same when done in a vat in a paint factory, but what differences appear when the instrument is the brush of this painter or that! One gives us yellow ochre, another sunlight. One presents us with the degree of refraction of light which we call violet, while the more skillful records a luminous shadow.

Some say that we should not surrender to apparent imponderables by contenting ourselves with qualitative judgments about them, but should organize statistical attack. Where definition and curve and formula do not resolve doubts, then the teacher's rôle is neutrality. He must be a mirror which his students may turn this way and that to reflect from every angle. But the teacher cannot be a cipher in his own equations. He knows that what often pass for objective economic forces are truly the expressions of individual or, oftener, group interests. Much that is pictured as imponder-

able, fit to balk conclusion, is ponderable enough. It is perhaps the protest of a distant father who has received a garbled report of something the instructor said in class. Or an ancient rich trustee threatens to resign from the board if a man with such and such opinions is kept on the faculty. It is to be noted that students rarely call an instructor unfair. The outcry usually comes from persons who never heard the man teach for five minutes, and in this list may often be included officers of administration. Each of the great teachers of political economy had a thesis, and it had the most important social implications. Smith tried to demolish commercial restrictions and to invite freedom. Malthus assailed the optimists of his day. Mill is more distinguished for his doubts about the capitalist system than for his attachment to it. Marx and George and Veblen carried crusades. The mere expositors, the patient amenders are remembered only by writers on the history of economic thought. What should we think, today, of the man who, in the name of "objective teaching," would have stopped the mouth of Adam Smith? Or read the record of the questions put to Henry George at a meeting in London by economists so excellent as Alfred Marshall and Arnold Toynbee; the man with a mission was confronted by the merely circumspect, and his reach for a better society certainly helped his reasoning.

We can turn out plenty of teachers well enough acquainted with economic literature and able to give an orderly account to classes. But they are sterile, and wake nothing in their students, unless they see beneficial drifts in society and do what they can, in the classroom and out of it, to help these forward.

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## Note on Some Chamberlinian Solutions

There is, I believe, a paradox involved in one of Professor Chamberlin's solutions of group equilibrium (E. H. Chamberlin: *The Theory of Monopolistic Competition,* pp. 92 and 93) and his solution of equilibrium with excess capacity given a small number of firms (*Monopolistic Competition,* pp. 104-105) and free entry of firms in the field.

In the case of group equilibrium of a large number of firms and a field into

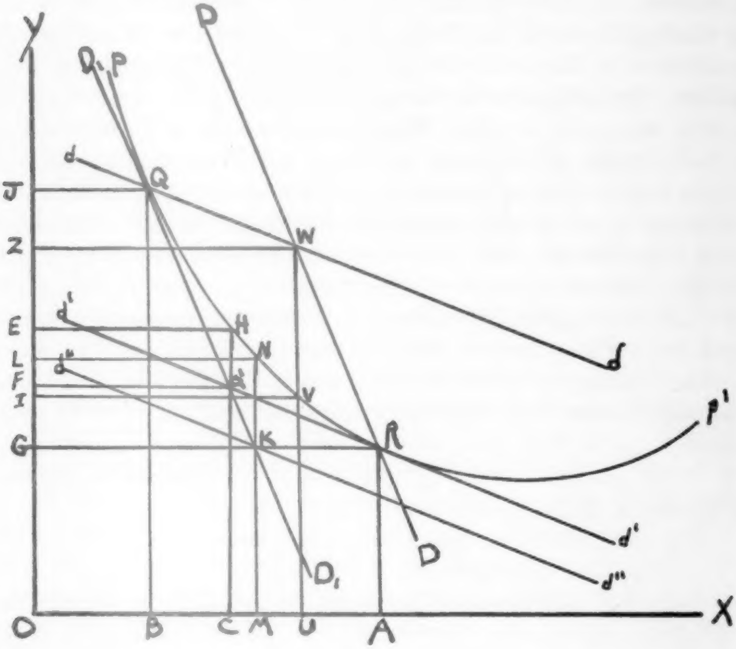


FIGURE 1

which entry is free (*Monopolistic Competition,* p. 92, Figure 15; see Figure I attached to this paper), Professor Chamberlin discusses the group solution when some price along *dd* to the right of *BQ* has, through the attraction of excess profits (*i.e.,* in this case any margin of price above *PP′*), drawn new firms into the industry forcing curve *DD* back to tangency with the cost curve, *PP′*. Professor Chamberlin points out that price cutting will take place due to the "possibility of increased profits, represented for any producer by the demand curve *dd″*. This will continue, say, until price *CQ′* and output *OC* is reached. In an attempt to get away from losses *FQ′HE* along the curve *d′d′* the cutting will continue to price *MK* at which point "losses are larger than ever." Now Professor Chamberlin concludes that "equilibrium can be achieved only by the elimination of firms." This is quite true but *only if it is granted that there is the implicit assumption of a difference in the hardihood of the firms involved* (*i.e.,* a differ-

ence in the ability of the firms to produce over a period of time at a loss). It is obvious that if this assumption is not granted *there can be no equilibrium in this case at all* because all firms would be driven out at once. Then they would be reorganized, or new firms would take their places, and the process would be repeated until either a difference in hardihood appeared or until people got disgusted with that industry and abandoned it altogether.

Now this is all very well and all very commonplace until one gets to Professor Chamberlin's discussion of equilibrium with excess capacity (pp. 104-105). Here Professor Chamberlin is discussing a small number of firms all of which act with regard to all their effects on one another. Then using Figure 15 (*Monopolistic Competition* p. 92) and with it, one assumes, all its assumptions except those clearly restated (*e.g.*, in this case there are small numbers acting with regard to their effects on one another), he points out that price, *BQ* (see Figure I attached) is "*perfectly stable.*" Now this is not necessarily so. It is true if all the firms are of equal hardihood, but such a change of assumptions has not been made explicit. If the firms are not of equal hardihood there may be constant oscillation of the following nature: There is a small group of competitors each acting with regard to his total effects on the others in the field. Price is set at *UW*; output is *OU*; and there are excess profits of *IVWZ*. New firms are attracted by these profits and enter the field driving *DD* to the position $D_1D_1$ tangent to *PP′* with price *BQ*. Now if some of the firms, due to a real or imaginary difference in hardihood, fancy that the total losses (*i.e.*, the product of *GKNQJ* and the time it is present) involved in driving out the extra firms will be less than the total profits (*i.e.*, the product of *IVWQJ* and the length of time these adjustments take) to be made before reëntry of new firms again drives *DD* to position $D_1D_1$ tangent to *PP′*—under these conditions—price will move from *UW* to *BQ* to *MK* to *UW* with firms continually coming in and going out, and the price *BQ* is absolutely unstable.

This does not go so far as to argue that *any* difference in hardihood, putative or actual, is sufficient unto itself to cause price *BQ* to be unstable. It does go so far as to argue that it is erroneous to state that "such an adjustment is perfectly stable" (*Monopolistic Competition* p. 105) unless the assumption is one of equivalent hardihood in all firms.

Under conditions of unequal hardihood price *BQ* may be stable, but it is by no means necessarily so. To keep the analysis on a strictly orthodox economic level one would have to argue that only an actual or putative surplus of profits over losses would be sufficient to guarantee instability. Many factors would determine this. The relation of variable to overhead costs, the speed with which firms could be driven out, and the celerity with which others would come in to replace them would be prominent among the factors to be considered. Comparative size of firms would tell one little in these matters; the rate of loss and of profit and the strength of banking connections would throw more light on the subject. The time interval is, of course, crucial. The method of capitalization of the firms has a strategic bearing on the point. Firms whose obligations were largely bonds and debentures could not produce for as long a time at a loss as those whose obligations in the form of common stocks are more easily ignored and capable of neglect for longer periods of time.

These considerations begin to leave strictly orthodox economic grounds almost at once and spread to institutional levels whereupon they become multiplied a thousandfold. Pure "cussedness" on the part of the head of one firm and his dislike of his present competitors may lead off the cutting. The field may become

unstable if one of the members thought that for a while losses involved in driving out competitors might be greater than the profits in the case and if at the same time he envisaged making the field so unattractive to new firms as to allow eventually a stable price at, say, *UW* or some point to the right of *BQ*. One might go on listing such factors indefinitely, but the strategic considerations of which these are all specific elaborations are: (1) the existence actually or putatively of a difference in hardihood and (2) the existence actually or putatively of some gain strictly economic or, more broadly, falling under a sociological head—some gain along the line of any value orientation—to be derived from the activity of forcing other firms from the field.

Of course it is not to be maintained that the case of oscillation herein suggested is to be found unalloyed in the empirically existential world. Such a statement would be reification pure and simple. Nevertheless it is suggested that this solution may be found as a contributing factor in many empirical situations and for that reason is on an equivalent theoretical level with the solutions set forth in Professor Chamberlin's book and stands or falls methodologically with them.

In summation, I believe that the paradox boils down to this: (1) the solution on pages 92-93 is wrong and that on pages 104-105 is right or vice versa, and the solution put forth here has been overlooked or (2) both solutions (pp. 92-93 and 104-105) are correct (*i.e.*, on pp. 93-94 the implicit assumption is a difference in hardihood, and on pp. 104-105 the implicit assumption is equal hardihood) in which case the failure to be explicit about crucial assumptions is, to say the least, confusing, and in addition the case here set forth, which like Professor Chamberlin's solutions may be of great partial import empirically, has again been missed.

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## Welfare Economics a Misnomer

When applied to a body of economic thought, the term "welfare" rather obviously implies that the system of thought is designed to promote the welfare of society. In so far as Hobson's ideas are thus intended, the term "welfare economics" is correctly employed. But in so far as the label is applied to delineate a distinction between Hobson's system and other systems of economic thought, the term is a misnomer. For whether explicitly stated in the writings of its adherents, or whether implied by the activities of its adherents, each of several other schools of economic thought is designed to promote social welfare. That the school of free trade was designed to further social welfare becomes apparent in a statement made by Adam Smith: "By pursuing his own interest he [the individual] frequently promotes that of society more effectively than when he intends to promote it." Otherwise stated, this means that society best serves its own interests by turning the individual loose (laissez-faire). Socialist economists take the opposite view that society best serves its own interests by regulating the economic activities of individuals. Whether this regulation is achieved by state ownership of industry or by legislation is not pertinent here. Suffice it to say that socialist economists hold that collective planning is necessary to promote best the welfare of society. The arguments of either party to this debate need not concern us here. We merely note that the aim of both sides is the same—the advancement of social welfare.

When we examine price economics, we are faced with a more complicated

problem. Different students of price economics hold different views concerning the nature and significance of their study. In general, however, I think it safe to say that price economics is a study of economic activity as manifested in the system of market exchange. To clarify the discussion, we may define price economists as economists who base their opinions chiefly on studies of the operation of the market exchange system. This group may be divided roughly into three subgroups: those price economists who believe that the market exchange system best promotes the welfare of society; those price economists who feel that modifications of the market exchange system must be made to promote best the interests of society; those who study price economics for other reasons. It is perhaps safe to say that most price economists fall into one of the first two categories. Both groups obviously (almost by definition) are interested in promoting social welfare.

If Hobson's economic thought is not distinctive in its attempt to further social welfare, is there any distinguishing characteristic of Hobson's thought? The distinctive features of Hobson's thought seem to derive from the individuality of his orientation. Subjected to a diversity of influences in his formative student days, Hobson assumed a position which he has described as "heretical" but which may perhaps more accurately be described as "heretical eclecticism." For, sharply heretical though his critical writings are, his creative thought embodies ideas contained in the writings of other schools. The individuality of Hobson's approach has been aptly described by Harvey W. Peck who terms welfare economics "the expression of a personality who combines the characteristics of the theoretical man, the social man, and the artistic man."

Trained in the Marshall school of rigid economic thought, Hobson was a capable theorist. But in his daily life he encountered much evidence that somehow, in practice, the economic system was not functioning as well as the neat logic of theory indicated that it should. He underwent what R. G. Tugwell has described as the "nasty shock" experienced by "those who thought that a meliorative principle worked through the meanest tricks of competition to establish the best of all possible worlds." Now Hobson was a social man, a socially conscious man. He began to wonder whether price economics, mathematically exact and simple as it made the study of the economic aspects of life, did not oversimplify matters to the extent of leaving out some of the most important considerations in the economic sphere. And he felt the necessity of making his economic theory more functional, better adapted to the elimination of the injustices that moved him. But there is yet a third aspect of his personality—the artistic man. Thus moved to re-orient his economic thought, Hobson chose the aesthetically satisfying goal of establishing a theory based on human rather than material evaluation. And herein is found the potent directive force which Hobson has labeled "the definitely humanist and ethical trend of my Ruskinian thought." It is probably this conscious humanitarian aim which has earned for Hobson's economics the appellation "welfare."

MONROE LAZERE

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## A Note on Mr. Higgins' "Indeterminacy in Non-Perfect Competition"[1]

Mr. Higgins rightly criticizes the failure in current economic literature to consider the contents of average revenue and average cost curves. Quite rightly, too,

[1] *Am. Econ. Rev.*, Sept., 1939, p. 468.

he points out that the assumption that individual producers will attempt to maximize their profits is only one of many assumptions that might be made in the analysis of any particular case. He, however, confines this qualification to cases of non-perfect (as he calls it) competition, of the non-tangency sort. On page 476, he says:

"In the analysis of perfect competition, the maximization of profits by entrepreneurs is a situation that must exist *ex definitione*. First, we are accustomed to defining normal profit as the 'transfer cost' of entrepreneurship; *i.e.*, the amount which is necessary to keep the firm in operation. Second, we exclude super-normal profits from the case of perfect competition. Therefore, entrepreneurs under perfect competition *must*[2] maximize profits or disappear altogether. The same analysis applies to the "tangency case" of monopolistic competition."

Not at all. It is normal profit that must exist *ex definitione* in a perfectly competitive situation—and normal profit is a purely subjective matter. It is that profit which just induces the entrepreneur to stay in the business. In monetary terms, it could be zero or even negative, though either of these is unlikely as a continuing phenomenon. It might very well be positive but less than what the entrepreneur might earn in some other line of activity, or even in the same line of activity, if he so wished. And the same reasons might deter an entrepreneur from maximizing his money profits under perfect, as under non-perfect, competition. That is, he might produce beyond the point at which his money profits are a maximum, counting the "prestige" attaching to the management of a large business, for example, as sufficient or more than sufficient to compensate him for the profits that he gives up. Or, he might sell at a lower price—although feeling that he might sell all he wished at a higher price—for philanthropic reasons, for example. Or he might pay wages higher than the market, for ethical reasons or for "the feeling of righteous self-satisfaction that goes with it."

That profits are a maximum in perfectly competitive markets is true in current literature, only by assumption. We do exclude supernormal profits from the case of perfect competition, but only because we assume that normal profits are maximum profits. Incidentally, of course, the types of monopoly equilibrium, described by Mrs. Robinson, for example, are true only by assumption. We conclude that the individual entrepreneur will produce that output at which marginal revenue equals marginal cost, only because we assume that he will attempt to maximize his net money profit. Actually, to assume that an individual's net money profit will be a maximum is to assume that he will equate marginal revenue and marginal cost. Any other assumption concerning the objective of business-men will lead to a different equilibrium position. In the absence of knowledge concerning the objectives of business-men, it is impossible to determine that equilibrium position. We must say, as the older economists used to say, that the individual entrepreneur will attempt to maximize his net advantage (whatever that may be). Truly, empirical research is needed, as Mr. Higgins suggests.

EDWARD S. LYNCH

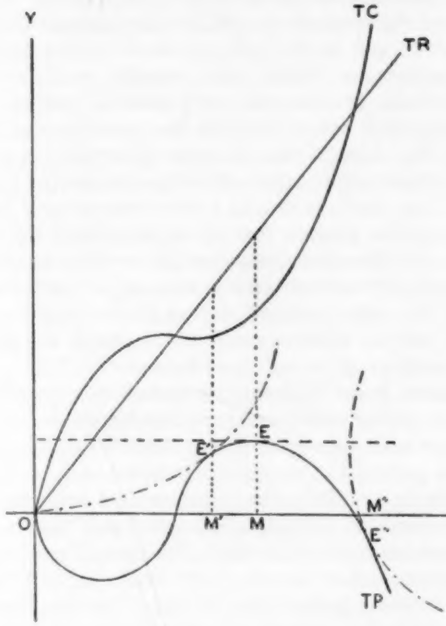
*Iowa State College*

## Reply by Mr. Higgins

I realize from Professor Lynch's note that I used the term "profits" somewhat ambiguously. In the passage that he quotes, the "profits" that must be maximized

[2] Italics his.

are supernormal profits. Following the usual practice, I was including normal profits as costs. When we do so, no equilibrium position is possible under perfect competition but that where the average cost curve is tangential to the horizontal price line, and "profits" in my sense are "maximized" at zero. If normal profits are zero or negative over certain ranges of output, the cost curve shifts and changes shape accordingly, so that equilibrium is still established with average costs equal to price. The same is true under conditions of monopolistic competi-




tion with freedom of entry, which leads to the "tangency" case. Zero or negative "normal" profits will make the cost curve different in position and shape from the usual case; but equilibrium is still established with average cost equal to price and supernormal profits "maximized" at zero.

What I failed to point out, and what Professor Lynch has now made clear, is that under "pure" as well as "non-perfect" competition motives other than the desire to maximize money profits must be considered. He also raises grave doubts in my mind as to the advisability of including normal profits as costs; this method seems to mask the truth. The apparatus set up in section IV of my article can be used to deal with pure competition (and the tangency case) in a more realistic manner. In the diagram above, *TR* is total revenue, *TC* total costs, and *TP* total profits for a firm under pure competition. If money profits are the sole consideration, the indifference curves will run horizontal to the base axis and equilibrium will be at *E*. When other motives are included, equilibrium might be at *E′* or *E″*. The marginal entrepreneur would be one who finds his equilibrium position on an indifference curve through the origin (as at *E′*), and who therefore has no subjective "producers' surplus." As Professor Lynch suggests, this position might

be one where money profits were zero or negative (as at $E''$), and might be on either side of the point of maximum money profits.

Benjamin Higgins

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## Problems in the Teaching of Economics

At the last annual meeting of the American Economic Association in Philadelphia, one afternoon session was devoted to "Problems in the Teaching of Economics." Here, one of the speakers proposed that students should be encouraged to spend a year or two out in the business world before coming to college to begin the study of economics. Here, also, another speaker vigorously condemned the practice of those teachers who appealed to publishers for revised elementary economic texts that would include the more recent laws and facts relative to our economy. He, himself, had not earlier envisioned such reforms of his own text that would make up for the lack of inertia on the part of teachers.

Now it may be true that students would better comprehend many economic relationships following upon a year or two of employment. The same could be said about other subjects in the curriculum that the student would pursue upon his return. Such a proposal for revision in the teaching of elementary economics has little significance to the more essential nature of the problem involving the best presentation of the subject matter under the currently accepted assignment for the teaching of economics in a college education of four years. However much the study of economics helps to develop a realistic understanding of American economic life, this can and should be accomplished with an adequate explanation of the economic laws and principles that govern it in the course of which the rich but disorganized personal experience of students can be drawn upon.

*In re* the charge made in no uncertain terms against teachers of elementary economics, this much can be said. Academic advancements for the teacher, upon which increments in salary are made to depend, flow from "productive research." Because of academic preoccupations herein, little vital contact is made with the broader aspect of supplementary pedagogical devices. Teachers have come to depend upon the list of such devices customarily included in introductory economic texts. These have taken the shape of bibliographical aids, summaries of conclusions and lists of test questions that depart more or less successfully from the catechetical order. That the clamor for revision carries with it the hope that the new text will, to all intents and purposes, perform the teaching task in and of itself, is not hard to envisage under the circumstances.

Perhaps it can be said that other sessions at this conference meeting were of a more informative nature to a host of people. But from my knowledge of the reactions of others thereto, this thesis would be hard to sustain. Yet, assembled in a small room, grossly inadequate for the numbers who thronged the entrances, was this group of teachers anxiously concerned with the topics under discussion. Many would willingly have voiced their reaction to the contention of the speakers, if time had not been called. And when the motion was made to petition for a similar session at the next annual meeting (after a lapse of three years since the last of this kind was convened) it was readily carried. I hope that at future meetings of the American Economic Association, sessions on "Problems in the Teaching of Economics" will not be conspicuous by their absence on the agenda.

Peter D. Shilland

*University of Illinois*

## Comment on the Pacific Gas and Electric Case[1]

In the December, 1939, issue of the *Review* there appeared an article which considered, along with other matters, the significance of the recent decision of the Supreme Court of the United States in the Pacific Gas and Electric case.[2] The authors summarize their conclusion in the following words: "It may be inferred that a majority of the Supreme Court now looks with favor upon the use of historical cost as the rate-base. No other conclusion is possible in view of the fact that the California Commission in this latest case expressly declared its adherence to historical cost and that it flatly refused to give any consideration to reproduction cost. . . . It seems rather clear that if the reasoning in this case is consistently followed, there will be few, if any, occasions on which a rate order based upon historical cost will be disturbed by the Supreme Court."[3] Since this conclusion might be taken to mean that the Supreme Court is at last ready to place its stamp of approval upon the use of historical or original cost in confiscation cases, the discussion of this important decision should be carried a step further.

The question before the Court was not one of confiscation, but of procedure. "As the District Court did not deal with the issue of confiscation and the evidence is not before us, we are concerned only with the question of procedural due process, that is, whether the Commission in its procedure, as distinguished from the effect of its order upon respondent's property rights, failed to satisfy the requirements of the Federal Constitution." And the particular procedural point in dispute related to the method by which the California Commission arrived at its result. The Commission had considered evidence as to cost of reproduction, but in fixing the rate base it had given weight and effect solely to historical cost. The precise issue was whether the refusal of the Commission to give weight to the cost of reproduction constituted a denial of *procedural* due process of law.

The Court held that the procedure of the Commission did not deny the company due process. It found that the Commission had duly weighed the evidence as to reproduction cost, and had cast it aside as unsatisfactory; but that it had nevertheless based its valuation upon ample evidence. "The Commission was entitled to weigh the evidence introduced, whether relating to reproduction cost or to other matters. The Commission was entitled to determine the probative force of respondent's estimate. That the Commission did so is apparent from both its statement to that effect and the reasons it gives for considering these estimates to be without positive value. . . . Nor did the ruling with respect to the weight of evidence as to reproduction cost leave the Commission without evidence of the value of respondent's property. We have frequently held that historical cost is admissible evidence of value. . . . In the instant case we cannot say that the Commission in taking historical cost as the rate base was making a finding without evidence and therefore arbitrary."

In other words, this decision only reiterates a well established principle of procedure—namely, that it is essential to examine and give appropriate weight to all pertinent evidence of value, so that a decision will not be arbitrary. From a

[1] *302 U. S.* 388 (1938).

[2] G. L. Wilson and J. R. Rose, "Some Recent Trends in Public Utility Regulation," *Am. Econ. Rev.*, vol. 29, pp. 746-759 (December, 1939).

[3] *Ibid.*, pp. 749, 750.

procedural point of view, evidence of cost of reproduction may be considered as having received adequate weight if it is carefully examined, even though the evidence is found to be without force. But it does not follow that evidence of cost of reproduction would be given sufficient weight in a confiscation case if it were merely carefully examined. Here the courts look to the actual results in dollars and cents, and it might very well be that a commission's refusal to give actual weight to cost of reproduction would result in rates unfairly low in the eyes of the court. The force of the O'Fallon decision, in fact, is that the cost of reproduction must receive weight in the final result, provided, of course, that the evidence is substantial.[4]

Had the issue in the Pacific Gas and Electric case been one of adequacy of rates, the decision of the Court might have been different. So much seems to be implied by the following words: "Respondent was entitled to contest the value thus placed upon its properties, or any part of them, to insist that the value taken as the rate base was too low, and that in consequence the prescribed rates were confiscatory. That was the issue upon which the court below should have passed."

While it may be true that a majority of the Supreme Court does favor historical cost, it can hardly be said that the Pacific Gas and Electric case establishes this fact. There is yet no reason to conclude that the Court has necessarily departed from its position in the Los Angeles Gas case, where it said: "And mindful of its distinctive function in the enforcement of constitutional rights, the Court has refused to be bound by any artificial rule or formula which changed conditions might upset."[5] It appears that "fair value" is still a matter of judgment subject to judicial review.

Truman C. Bigham

*University of Florida*

## Supreme Court's Attitude toward Historical Cost

In a recent article[1] the latest Pacific Gas and Electric decision was interpreted to mean that "if the reasoning in this case is consistently followed, there will be few, if any, occasions on which a rate order based upon historical cost will be disturbed by the Supreme Court."

As long as the Fair Return doctrine continues to be the basis on which the Court judges the constitutionality of a given rate level, economists will be keenly interested in knowing whether the law of the land requires that reproduction cost be considered in determining the rate base; and the authors' conclusion, if it can properly be drawn from the opinion cited, is indeed of signal importance. It should be noted, however, that the question presented to the Supreme Court was strictly procedural—namely, whether the rejection of reproduction cost evidence constituted a violation of the due process clause. The issue of confiscation was not involved.[2] If, in the future, complaining public utilities plead the

[4] *279 U. S.* 461 (1929).

[5] *289 U. S.* 287, 305 (1933).

[1] "Recent Trends in Public Utility Regulation," G. L. Wilson and J. R. Rose, *Am. Econ. Rev.*, Dec., 1939, p. 746.

[2] "As the District Court did not deal with the issue of confiscation and the evidence is not before us, we are concerned only with the question of procedural due process. . . ." 302 U. S. 392.

confiscation issue directly, the courts will find nothing in the Pacific Gas and Electric decision to preclude their accepting and weighing reproduction cost evidence even though that evidence may have been rejected by the commission. Consequently, it is entirely possible that many rate orders based on historical cost may be disturbed by the courts without doing violence to this decision.

Until the Supreme Court approves the rejection of reproduction cost evidence in a case directly involving the confiscation issue, a conclusion as broad as that of the authors must remain open to question.

ROBERT W. MAYER

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## Copies of "Storage and Stability" Made Available

Professor Frank Graham's paper on "The Primary Functions of Money and Their Consummation in Monetary Policy," read at the December, 1939, meeting of the Association (and published in the March *Proceedings*) contains a very welcome endorsement of my proposal (contained in my book, *Storage and Stability,* McGraw-Hill) for a commodity reservoir to operate through the medium of a commodity-backed currency.

I hope that this presentation will receive the considered attention of economists. With that in view I shall be happy to present a copy of the book to such members of the American Economic Association as may request it. This offer implies (1) that the recipient read the book with care, and (2) that he subsequently donate a copy to his school or town library if it has no copy of its own.

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## Professor Litman's Review of The Invisible Tariff

Professor Litman in his review of my book, *The Invisible Tariff,* in the *Review,* March, 1940, credits me with believing that the "growing power of the executive to deal with foreign trade problems . . . is inconsistent with our democratic form of government." He implies also that I do not appreciate the advantage, from the point of view of effective management of foreign-trade policy, of giving larger powers to the administrative branch of the government, *i.e.,* to the President.

A more careful reading of my introductory chapter, I believe, will show that it does not justify these implications. The book stresses the merits of handling tariff matters by administrative agencies, as for example in the Trade Agreements Program. I do not at all hold the view that a larger measure of administrative control over import trade is inconsistent with democratic government. But democratic government *is* threatened when administrators use for general political ends the power which Congress gave them for more limited purposes, *viz.,* for the expansion of exports, or for the protection of the domestic market against unfair competition from abroad. The view I expressed was that if Congress wishes American tariff policy to be used to influence the course of a war in Europe or in Asia, it should say so; administrators should not stretch the meaning of federal statutes to accomplish these purposes.

PERCY W. BIDWELL

*Council on Foreign Relations*

## General Works, Theory and Its History

*Capitalism the Creator: The Economic Foundations of Modern Industrial Society.* By CARL SNYDER. (New York: Macmillan. 1940. Pp. xii, 473. $3.75.)

To quote the author, "The one special purpose of this volume is to inculcate the doctrine that economics must be studied as a science, through measurement, as in other sciences, and through these to discover the mechanisms that govern economic phenomena."

Three main factors are analyzed: growth trends, cyclical fluctuations and inequalities of income and saving. Liberal use of charts presents the statistical data. The charts on long-term growth trends show the parallel development of industrial production, machinery, invention, power and capital investment. This parallelism is offered as proof of the proposition that economic progress is in proportion to the encouragement of capital accumulation and of inventive genius.

The measurements of business cycles are concerned with the interrelationships between fluctuation of production, profits, bank credit, velocity and commodity prices. Snyder is an exponent of prevention of major depressions by credit control and concludes that capitalism cannot save itself from destruction unless this control is learned by the leaders of finance and politics and exercised boldly as a part of enlightened statesmanship.

The principal quantitative method employed to demonstratate the inequality of income is the Pareto Curve. The capital accumulation of the past, according to Snyder, was possible because of this inequality, and the surest way to destroy it in the future is to destroy inequality of income and wealth. His views on this subject are in sharp contrast to those recently expounded by government experts in testimony before the Temporary National Economic Committee.

To economists, the interest in the book is largely in its demonstration of the quantitative method. Snyder attacks the theories, abstractions and opinions which dominate so large a portion of economic writing, and appeals for more of the hard work of fact-finding and statistical measurement. He assaults the conventional economic methods, not in any half-hearted manner but with sledge-hammer tactics. He is a crusader for welfare and progress but believes that most of the popular social economic doctrines of the day are supreme nonsense.

An author who attacks so severely must expect his critics to counterattack. His conception of proof will not satisfy everybody. Some of his statements are too emotional. But these faults are minor. Snyder has made a great contribution to economic methodology. This book is the culmina-

tion of his life work in statistical research and is replete with his philosophy of life and of the meaning of mankind's struggle to advance the standard of living. It deserves to be rated as a major contribution to that type of economic thought which seeks to pioneer and to explore new approaches to knowledge. Disciples of theories about "the mature economy" and "economic stagnation"—Hansen, Soule, Berle—have met in Carl Snyder an antagonist who strikes back with power.

LIONEL D. EDIE

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*Value and Distribution: Some Leading Principles of Economic Science.* By LEWIS H. HANEY. (New York: Appleton-Century. 1939. Pp. xvii, 734. $4.00.)

This book may, for convenience, be divided into three parts. The first part (four chapters) provides background for the explanation of the determination of economic value. The subjects of the four introductory chapters are: a general critique of economic theory; the basic assumptions of economic science; the genesis and general nature of value; and the nature, cause, and final definition of economic value. The determination of economic value (four chapters) may be thought of as comprising the second division of the book. These chapters include a discussion of monopolistic competition and the value of money. Monopolistic competition is developed in terms of the "Theory of Railway Rates." The third part of the book deals with distribution. Chapter 9 presents the meanings which have been assigned to the concept of distribution, and the relation of distribution to economic life. Chapters 10 to 13 deal with wages, interest, profits and rent.

The author expressly indicates that the type of theory he is presenting may be called "Equilibrium Economics." There has been for some time a definite need for a clear, rigorous, and consistent statement of value and distribution theory from the point of view of equilibrium analysis. Alfred Marshall's presentation is still the best general approach, although there has been considerable advancement since the formulation of his *Principles*. In particular, the development of equilibrium value and distribution theory has been rapid since 1920. While these recent developments have been important, little attention has been paid to the general and complete statement of the theory, so that considerable confusion exists. The volume under review does not consolidate the newer material into anything that might be called a coherent and well-rounded formulation of equilibrium value theory. It will be a disappointment to anyone seeking that kind of presentation. The book may be characterized quite fairly as an enlargement of the value and distribution chapters generally included in the normal college text on principles. More space is given to the methodological concepts conditioning the author's presentation. To the students with limited back-

grounds in the literature of methodology, this may be more confusing than helpful. Perhaps Professor Haney's methodological outlook can be summed up by the following quotation:

> In the author's judgment, scientific definitions must be in terms of causal forces and functions. Only in such terms, it seems, can one ever be sure that the definition will always define (p. 224).

Classification of the ideas is somewhat overdone, along textbook lines. Particularly disconcerting is the general practice of substantiating a given point of view, not by argument, but merely by assertion. Equally annoying is the practice of establishing the argument by the principle of being on middle ground. On the whole, the equilibrium approach is maintained and clearly stated:

> The attitude taken by the author, and the one which seems to be expedient in economic science, is simply this: We consider conditions as found at any given moment of time, and base our reasoning upon the *tendencies* which arise from those conditions. At any given time, we may ask the question, Whither is the market tending, and have a basis for answering it (p. 307).

To some readers it would have been the part of wisdom to conclude the above statement by pointing out that, while the equilibrium analysis gives a basis for answering the question, "Whither is the market tending?" it does not necessarily tell where the market really arrives in the world of reality.

Perhaps it is still too early to expect a concise presentation of the problem of economic value, of the place of the static equilibrium approach to the problem, and in addition a clear statement of both the advantages and limitations of equilibrium theory. The importance of equilibrium theory is not diminished, but rather increased, by a clear statement of the limitations of such theory from the standpoint of providing an accurate analytical description of the determination of economic values in the world of reality.

RAYMOND T. BOWMAN

*University of Pennsylvania*

*Elements of Marxian Economic Theory and Its Criticism.* By WILLIAM J. BLAKE. (New York: Gordon. 1939. Pp. viii, 746. $3.75.)

A new introduction to Marxian economic theory was badly needed. Most of the earlier written books are either inadequate or have become obsolete; and none present an up-to-date summary of the debates among Marxians and non-Marxians on the meaning and validity of Marx's theorems. Some readers may feel that Blake's book might have been improved had he presented Marxian economics in its philosophical setting—he gives only a short appendix on Marxian philosophy—but it was really a wise move to confine the material strictly to economic theory. Disentangling the confused

discussion of historical materialism and dialecticism would not have been possible in a textbook of manageable size without unduly curtailing the space for the economic exposition.

Mr. Blake is an extremely industrious reader, and has worked through Marxian literature and the writings of the critics with model thoroughness. Unfortunately he does not give his reader the full benefit of these labors, since quotations and even citations of individual passages of Marx's work are almost entirely lacking. Many passages in the book make it clear that the author wanted to write not a neutral exposition but a critical analysis of Marxism and the theorems of its opponents. Yet on Blake's long intellectual travel he has apparently failed to discover a single fault, or even a logical gap which remains to be filled, in the Marxian-Leninist doctrines. He finds no contradiction between the Marxian theorem that presents labor-time as the determinant of exchange relations by inherent necessity, and the other theorem of Marx that competition causes exchange relations to deviate from the labor-time rule. Marx's failure to develop his accumulation schemes (*Capital,* vol. ii, chapters 20 and 21) does not, in Blake's opinion, justify any doubts as to the ultimate meaning of these schemes—Lenin's interpretation is to be accepted as final. Nor does Blake acknowledge any logical inconsistency between Marx's rejection, on fundamental grounds, of the under-consumption theory (*Capital,* vol. ii, 4th German ed., 386) and Marx's theory of the business cycle (*Capital,* vol. iii, chapter 15) which seems to make use of the under-consumption argument. Now, without going into any details, certain obvious facts are apparent which offer at least a *prima facie* argument against such a wholesale defense of the Marxian-Leninist position. Large sections of Marx's main work were left by him in an unfinished state, and some of the most important chapters are evidently not an expression of considered opinion but preliminary notes intended to preserve ideas for later elaboration. In the course of this elaboration many of his ideas would undoubtedly have been modified, and if Marx could return to this earth it does not seem likely that he would find his own work as unimpeachable as does Mr. Blake. Nor does it seem probable that Marx would approve of all the means by which Lenin tried to complete the body of Marxian theory, for Lenin developed only one aspect—revolutionary dialectics—and ignored the strong gradualistic elements in Marx's thought. Thus Blake would have a hard time in defending his orthodoxy before the master.

Mr. Blake also tries to relate Marxian theories to present-day realities, and here he commits his most flagrant mistakes. "The worker," he writes (p. 228), "now is worse off than in the early epoch of capitalism in that he is thrown out of a job not merely by machinery but by crises as well." But were there no crises in the early nineteenth century? Like many other authors, Blake does not give enough weight to the fact that large-scale un-

employment existed in England (and in other countries) long before the heyday of industrial capitalism. "Why was England's inflation stopped by foreign receipts, and yet Germany's difficulties unchanged by foreign borrowing?" (p. 407). The answer lies in a simple fact which destroys Blake's Marxian implications: Germany could borrow only after her inflation, while England received income from abroad during her currency difficulties. "In the United States, during the highest prosperity period the index of wages in terms of the cost of living fell from 1921 to 1929 by some 4 per cent" (p. 478). Blake could have seen from the *Statistical Abstract* or from Paul H. Douglas' book, *Real Wages in the United States, 1890-1926* (from which Blake quotes in another passage) that this amazing statement is without foundation. "It is not commonly known that six years before Hitler a fifth of the German production was in armaments" (p. 484). It would indeed be desirable that even the few people who have this absurd figure in mind try to forget it as quickly as possible. It is unfortunate that Mr. Blake rarely indicates the sources from which he took such factual information, for which he is, without any doubt, not primarily responsible. He evidently relies very much on Jürgen Kuczynski, who, whatever his qualities as a statistician, is so anxious to make a case for the Marxian theorems that his statements should be compared with those of other authorities before being used in an historical analysis. (It is also very confusing for the reader that Kuczynski's formula for "relative wages" is reproduced—on p. 481—with a bad printing error that entirely distorts the meaning.)

Yet, with all the annoying weaknesses, the completeness of this book makes it valuable, and there are many interesting remarks in the volume. The literary appendix is excellently done. The tone is free of that cocksureness often found in the books of other protagonists of the Leninist interpretation of Marx. Mr. Blake is prejudiced but not a fanatic, and he tries hard to be fair toward such critics of Marx as Böhm-Bawerk. The book can be very useful for class instruction if the teacher takes the precaution of warning the students in advance against the misleading errors.

CARL LANDAUER

*University of California*

*Modern Economic Problems.* By ALBERT L. MEYERS. (New York: Prentice-Hall. 1939. Pp. xvi, 311. $2.50.)

The conventional elementary economics course is cursed with an unnatural dichotomy between "Principles" and "Problems." The principles text typically used for the first half-year irritates the student by its apparent abstraction from any real or significant problems. The problems text, on the other hand, tends to be a jumble of institutional miscellany illuminated by no single set of principles, least of all those learned in volume 1. The easy

way out of this difficulty, a way which seems to be currently popular, is to abandon any attempt to teach principles, turning the course into a sort of current events club. The hard and much the more fruitful way is to attempt a marriage, illustrating theory with significant applications and attacking current problems with the tools of economic analysis. It is this latter task that Mr. Meyers has attempted.

The attempt is to be applauded as an effort in the right direction; but the difficulties to be overcome are well illustrated by certain defects in this book. The problems covered are public finance, transportation, agriculture, forms of business ownership, combination and monopoly, international economic policy, labor, and planning in various sorts of societies. The brevity of the book has made it impossible for the author to include any satisfactory account of the current situation or any considerable amount of factual material. The argument is general throughout with little or no concrete illustration. Possibly it is expected that this will be provided in classroom discussion, but a reading of the text does not give one that sense of grappling with actual problems that can give an analysis body and significance. The section on agricultural policy is much the best in this respect, possibly because the author is himself currently working in the field.

In general, the analytic sections have all the clarity of Mr. Meyers' first book on principles, though occasionally this is at the expense of substance. The chapter on the shifting and incidence of taxes, for instance, is an excellent theoretical exercise in the manipulation of the standard marginal revenue—marginal cost diagram under a variety of assumptions, but the conclusions are a little too glibly automatic to satisfy the average fact-minded student. This is unfortunate in that theory, carefully embellished with illustration and practical modification, can be especially enlightening in the discussion of this subject.

There are occasional spots where the author plunges light-heartedly into waters far too deep for the first-year student. For instance, in the twenty-five page chapter on government borrowing he covers the whole Keynesian case for an unbalanced budget, introducing the marginal propensity to consume, the multiplier, and the algebraic relations between them in six pages and criticizing these concepts extensively in a few more. This whole discussion assumes that the student knows what is meant by investment and why there is a relation between investment and income. At one point the term "marginal efficiency of capital" appears with no definition or description of its meaning at all.

On the other hand there are places where Mr. Meyers makes rather disappointingly little use of quite simple theoretical tools. There is no discussion, for example, of the implications for the concept of the entrepreneur of the form of the modern corporation; the discussion of imperfect

competition fails adequately to distinguish between what is good for the firm and what is good for society (a distinction on which analysis can throw much light), and the analysis of socialism makes much less use than it might of recent fairly simple work on the pricing problem in a socialist state. Further, the general concepts of economic welfare on which particular judgments should be based are neglected almost entirely. But these are counsels of perfection. Mr. Meyers has tried to write a kind of text which is all too seldom attempted; and if his path from the ivory tower to the market place is somewhat bumpy, he may have stimulated other road builders.

MAX MILLIKAN, 2ND

*Yale University*

*Le Mécanisme des Prix*. By LOUIS BAUDIN. (Paris: Lib. Gén. de Droit et de Jurisprudence. 1940. Pp. 153.)

The framework of Professor Baudin's treatment of the price mechanism is the traditional one. Besides attempting to synthesize some of the outstanding modern interpretations of the functioning of the price system, Professor Baudin has a definite politico-economic objective. Recognizing the fact that recent attacks on the theory of prices have been directed at the very core of prevailing economic theory and had therewith questioned the individualistic economy as such (p. 2), Professor Baudin intends to provide himself and economists who think like him with the necessary tools to counter such an attack.

Professor Baudin reasons that the essential elements of the classical and neo-classical school can still be maintained as correct today. There are two aspects which he emphasizes as relevant. First, he points out that the *milieu* has depersonalized the modern individual. Here he follows the interpretation of the fascist philosopher, M. Ortega y Gasset, who refers to this phenomenon as the "*homme-masse*." This *masse* in turn appears—as it did previously to Pareto—to be led by an *élite* which directs the economic process.

Second, the modern price mechanism is characterized by a collective psychology that operates over a *period of time*. Here Professor Baudin makes a distinction between the *economic dimension* and the *economic horizon*. The economic dimension refers to the procedure that buyers who determine the demand by future prices rather than by present prices can be guided by the prices of the past, which, because of the "invisible etiquette" of their *milieu*, are present in their mind when they arrive at the market. The economic horizon refers simply to our ability to act on anticipations.

The second part of the book concerns the problem of price *movements*. All movements exhibit a cyclical rhythm which must be regarded, as in philosophy, as "the soul" which exists *in time* and which wisdom com-

mands us to conform to (p. 86). In consequence, "all the forces of the nation must work together . . . in order to change the economic factors to make them fit this rhythm as far as possible in order to reduce the disparities. . . ." The method proposed for investigating these movements consists of studying the prices "by categories" and not as totalities. In general, movements are represented as imposing themselves upon us, and we must live under them "si déplaisant que ce fait puisse être."

In the last part Professor Baudin tries to deal with the paradox that to suppress prices means to plunge into chaos, and that to fix prices is useless as long as the price coincides with the equilibrium price, or is dangerous if this coincidence does not exist. Professor Baudin dissolves this paradox, however, by declaring that "interventions can be justified under the title of exceptional and temporary interventions" (p. 147). Interestingly enough, Professor Baudin here refers in his footnotes to experiments along these lines that have been carried on in fascist Germany and corporative Portugal.

Taking the book as a whole, Professor Baudin has tried in it to solve a still greater and far more important paradox—namely, that of freedom and dictatorship. The intention of this book seems to have been to provide a system of reasoning which, to use his own term, allows for the "illusion of liberty" (p. 19) and the reality of dictatorship by an élite at one and the same time.

KARL H. NIEBYL

*Carleton College*

*Ekonomisk Teori. I. De Ekonomiska Kalkylerna.* By JOHAN AKERMAN. N. F. Avd. 1, Bd. 36, Nr. 2. (Lund: Lunds Universitets Arsskrift. 1939. Pp. 286.)

A few years ago Akerman wrote, "The methodological problem is, in a great measure, the real problem. The greatest difficulty is perhaps involved in the fact that economic methodology is neither strictly an arbitrary exogenous question, as in history, nor an endogenous problem inherently correlated with the real problem, as in mathematics. It is a noteworthy and significant fact that the founders of the historical and mathematical schools, Schmoller and Walras, both laid stress on the double tracks in economic theory, on inductive and deductive analysis."[1]

The attempt to synthesize these double tracks into a single effectively coordinated methodological framework has marked the whole trend of Akerman's thinking in recent years. He emphasizes the sterility of classical and neoclassical "explanations" of the total economic structure in terms of

[1] "Annual Survey of Economic Theory: The Setting of the Central Problem," *Econometrica,* vol. 4, no. 2, April, 1936, p. 99.

a static equilibrium utilizing the utility principle to reduce the varied motives and activities of diverse individuals and groups to a common denominator and to abstract them from their institutionalized, time-conditioned setting. Tracing the futile efforts of more modern schools to render the analysis dynamic by introducing into the "natural order" framework of equilibrium equations a change factor through capital, money, risk or anticipation theories, he points out that they fail to take into account the essential "dualism between theory and actuality, between rationalization of activities and actual time trends."

To cope with this dualism—this inconsistency between the subjective choices of individuals based upon fixed assumptions as to economic conditioning factors, and the changes in these factors constantly introduced by the passage of time—Akerman proposes to include both valuation and time within a common framework on a symmetrical and simultaneous basis. Characterizing his analytical units as "periods of specified activity," he makes them the common meeting ground for the ***kalkylmodeller*** or rationalized calculations of acting individuals and the economic driving forces revealed in a structurally determined, timebound ***kausalanalys***. Kalkylmodeller describe logically and timelessly the economic valuation patterns as static cross-sections always forward-directed, discontinuous in time, and reversible within the logical sphere. Kausalanalys deals with time-determined events within a continuous causal chain both forward- and backward-directed and irreversible in the actual sphere. Only the latter are prognostic in terms of probabilities constantly corrected by actual trends; on the other hand the valuation patterns are indispensable descriptions of the processes, however rationalized, through which actual trends are put into motion and kept going.

The valuation patterns (to which part 1 under consideration here is devoted) are worked out on the basis of six economic principles carefully framed with respect to the diverse individuals or groups who exercise choice, in order to avoid the classical "melting pot" of economic activities. Thus an initial distinction is drawn between calculations limited to economic alternatives within a given market situation, and those which take account of their influences on the market. In the sphere of market adjustment (*marknadsanpassning*) Akerman develops the "buying" principle involving maximization of marginal utility (for both consumers and enterprisers), the "production" principle dependent upon production margins, and the "selling" principle establishing an identity between marginal cost and marginal revenue. In connection with market control (*marknadsdirigering*) he distinguishes the "monopoly" principle dependent on price manipulation, the "expansion" principle which is directed toward an increase in volume and income independently of price relationships, and the "stabilization" principle which aims at a balanced allocation in time of

productive services in relation to value of money. The "expansion" principle applies to both enterprises and states, but the "stabilization" principle is primarily associated with the state.

Finally these six principles are brought together on the common basis of activity and time. From the economic actor's own point of view these various valuation patterns, distinct in principle, are integrated by the fact that the final decision must be the result of a combination of criteria. For example, large enterprises base their choices upon a simultaneous consideration of income, production, sales and monopoly principles, and even in certain circumstances, expansion and stabilization. But only in a purely conceptual perfectly competitive ("ideal type") society, or in the other extreme of a purely planned economy, will the assumptions underlying these rationalized valuation patterns coincide with the actual economic setting. Disparity arises from the fact that the time perspective (*blickfält*) for different groups varies in length. The consumption principle operates more or less as a momentary utilitarian reaction; the time perspective associated with the production principle is somewhat longer and roughly proportional to the ratio of fixed to total cost. Sales and monopoly decisions necessarily work with still longer forward perspectives, while the efficiency of the expansion principle depends upon the far-sightedness with which it is applied. Finally the concept of stabilization is little more than a "schematized expansion principle" if based on the short run; but it approaches the notion of equilibrium as the perspective lengthens.

In the construction of a realistic synthesis of *kalkylmodeller* and *kausalanalys* "everything depends on the choice of standard periods and on the correlation of period and activity; *i.e.,* the process of valuation stretching over the same space of time as the measurable period of quantitative change." It might be indicated here that Akerman's earlier works suggest that part 2 on "Kausalanalys" will work with the year as the natural unit of time covering the activity of wholesale and retail trade as well as of agriculture, the business cycle as the activity period of industrial capital formation, and a secular wave covering the activities of a generation's saving and of state and communal capital formation. Thus the ultimate methodological synthesis emerges as an analysis of time-bound and institutionally relevant valuation patterns as the economic mechanisms which are constantly and gradually modified through structural modifications.

Any evaluation of this remarkably eclectic analysis must above all avoid the pedantry and dogmatism of which it is so conspicuously free. Akerman has succeeded in utilizing much of the best content of all the important schools of thought, old and new, and reorientating them into a novel methodological framework that is of fundamental and challenging significance. Interest in method, it is said, is a symptom of intellectual senility, but certainly competent methodological inquiry demands a degree of open-

mindedness, vigor and penetration not ordinarily characteristic of superannuation.

FINN B. JENSEN

*University of Kansas*

NEW BOOKS

BEER, M. *An inquiry into physiocracy.* (London: Allen and Unwin. 6s.)

BELLIERI, A. *Dal naturalismo al neo volontarismo: la dottrina economica di J. C. L. Sismondo de' Sismondi.* (Milan: Giuffrè. 1940. Pp. 264. L.30.)

BRATT, E. C. *This unbalanced world.* (New York: Harper. 1940. Pp. x, 220. $2.50.)

CARLSON, S. *A study on the pure theory of production.* (London: P. S. King. 1939. Pp. vii, 128. 8s. 6d.)

Although there are several excellent monographs on the formal theory of production available in German (in particular, those of Stackelberg and Schneider), there has been no equivalent work in English. Dr. Carlson is to be congratulated on surpassing these German monographs in the process of fulfilling this need. His small volume contains an elegant and lucid, if condensed, restatement and synthesis of the better known sectors of the theory of production. If there is little in his work that is new, there is also very little that can be questioned.

Approximately the first half of the monograph is devoted to the theory of costs and the determination of homogeneous output of a single firm. This analysis is "mono-periodic" (*i.e.,* the firm invests and disinvests completely within one time period), and both perfect competition and simple monopoly are considered. The results closely follow those of Frisch and Schneider, and their apparatus of production indifference curves is employed. The one noteworthy omission is the failure to discuss the stability conditions (developed by Hicks, Allen, Stackelberg, and Mosak); had they been introduced, the analysis of effects of changes in prices and technology (pp. 69-73) could have been much more precise and informative.

The chief criticism of the content of these chapters that the reviewer would make concerns the ambiguous treatment of fixed costs. Fixed costs are defined in the usual manner (as costs independent of changes in output); but since in Dr. Carlson's scheme, all productive services are purchased at the beginning of the period (p. 14), all are adjusted to probable output. The distinction between fixed and variable costs then vanishes unless there are changes of output within the period, and this phenomenon of changing output is not (and cannot be) present in his theoretical model.

The topic of multiple products (joint cost and joint demand) is the subject of the second half of the monograph. Under this head, Dr. Carlson adopts the neat procedure of treating "poly-periodic" production (production in several time periods) as a case of joint production, in which the products in different time periods are treated as joint. It may be remarked that it is also possible to treat with discriminating monopoly in the same way; in this case the portions of the supply of a commodity sold in different markets are treated as different commodities.

The precise scope of the study may be defined by listing the topics usually included in the theory of production which are not covered in the monograph. No attention is paid to the industry in the case of competition, to market forms other than perfect competition and simple monopoly, or to all those problems,

except for the relatively simple case of interest, which are usually connected with the passage of time.

Misprints appear in formulas on pages 20, 83 (note), and 97, and Figure 14 (p. 52) contains an error ($C_t$ and $C_v$ should be parallel).

GEORGE J. STIGLER

FAIRCHILD, H. P. *Economics for the million.* (New York: Modern Age. $2.50.)

GINZBERG, E. *The illusion of economic stability.* (New York: Harper. 1939. Pp. xi, 275. $3.)

Ginzberg's book explains the origin of the belief, held by American public opinion from 1922 to 1929, that the causes of economic instability had been conquered, and gives the reasons for the reëmergence of the same illusion in 1933. It was an interesting and original idea to trace some of the intellectual roots of the New Deal to the "New Era" prosperity period, and it is all the more useful since the author never permits the similarities which he discusses to overshadow the essential differences between the two periods. The book is excellently written and equally well documented. Ginzberg combines a wide knowledge of facts with theoretical training, common sense, and a great ability to summarize his findings in a succinct and lucid manner.

The book suffers, however, from a weakness in its theoretical foundation. To make the reader understand the nature of the illusion, it would have been necessary for the author to tell exactly why he considered economic stability unattainable. Mr. Ginzberg, who is undoubtedly a good theoretician, makes some attempt to prove the futility of stabilization efforts which depend on the known techniques, for instance when he criticizes the theory of high wages, but the attempt is unsystematic and, in places, not free from the appearance of self-contradiction. This reviewer fails to see how Mr. Ginzberg can reconcile his belief in the elements of the Keynsian theory, evident on pp. 129-130, with his disbelief in the possibility of economic stabilization, since the Keynes theory logically leads to the conclusion that the means to stabilize an economy are at hand. To be sure, Mr. Ginzberg could not have presented a complete theory of economic fluctuations in addition to a large amount of facts in a volume of this size. But he could have called the reader's attention to the defects in the theoretical basis, which were caused by the limitations of space.

As it is, the reader may well be misled by the smoothness of the author's argument to the belief that it is established beyond doubt. However, the book is among the most interesting and useful that the reviewer has seen in the 1939 crop of economic literature.

CARL LANDAUER

v. GOTTL-OTTLILIENFELD, F. *Wirtschaftspolitik und Theorie.* (Berlin: Junker und Dünnhaupt. 1939. Pp. xii, 240. RM. 10.)

The author aims to explain the relation of political economy and theory from the scientific point of view. He is definitely on the side of the nazi régime, with whose demand he concurs that the scientific search for truth must stand in the service of the nation as the nazis conceive it. He argues that the science of economics is badly off unless its theories obtain their pragmatic sanction from politics. He is therefore in agreement with the contemporary cult of opportunism. He makes the foolish implication that Anglo-Saxon economy of the market is invalid because Ricardo, the Jew, was one of its major inspirers.

HERMAN HAUSHEER

HUTT, W. H. *The theory of idle resources.* (London: Jonathan Cape. 1939. Pp. 193. 6s.)

Professor Hutt believes the clue to the understanding of the chief economic and sociological problems of today to be a struggle in progress against the disrupting equalitarian effects of competitive capitalism. Competition and capitalism are hated today because of their tendency to destroy poverty and privilege more rapidly than custom and expectations established by protections can allow. Private interests, with the help of the state, try to protect themselves against this trend by restricting production. This restraint on productive power brings about wasteful idleness, both in labor and in physical things, but is accepted because it defends an existing and customary distribution.

After this emphasis upon the doctrine of laissez faire, wasteful idleness is rigorously examined. The term "idleness" is used instead of "unemployment" for the latter term has become associated with the idleness of labor, and the author is concerned with idleness in all resources and factors of production. Keynes is criticized for not taking this broader view (pp. 24, 34-35).

A new terminology, developed and analyzed with much precision and originality, describes causes of idleness in a competitive capitalistic system. While application has not been made of these ideas to monetary theory (p. 185), except in the consideration of the theories of Keynes, it is pointed out that even a perfect monetary system would not bring about productive efficiency if vested interests, resulting from restriction of competition, determined distribution.

The last paragraph of the book stresses the idea that wasteful idleness arises through the restriction of competition.

GEORGE W. SANFORD

LINDAHL, E. *Studies in the theory of money and capital.* (New York: Farrar and Rinehart. 1939. Pp. 391. $3.50.)

MCDONALD, W. J. *The social value of property according to St. Thomas Aquinas: a study in social philosophy.* Phil. stud. no. 48. (Washington: Catholic Univ. of America Press. 1939. Pp. 208. $2.)

PAGE, C. H. *Class and American sociology: from Ward to Ross.* (New York: Dial Press. 1940. Pp. xiv, 319. $3.50.)

PEDERSEN, J. *Das Gleichgewicht der Wechselkurse und seine Bestimmungsgründe.* Kieler Vorträge 58. (Jena: Fischer. 1939. Pp. 20.)

This is a lecture delivered before the Kiel Institut für Weltwirtschaft concerning the question as to what, if anything, constitutes normal or equilibrium exchange rates. Cassel's theory of the parity of purchasing power is dismissed, somewhat lightly, it seems, as a quasi-truism incapable of explaining deviations from equilibrium exchange rates such as necessitate occasional revaluations of currencies. According to the author, equilibrium exchange rates appear to be such rates under which a country with normal employment conditions is balancing its current foreign trade accounts. Within such a balanced economy he finds one factor particularly capable of strong, independent variation—namely, the wage level. He thus arrives at the conclusion that equilibrium exchange rates should vary essentially as the wage levels in the respective countries. Further on the question is raised as to the soundness of exchange rates artificially fixed in a state-controlled economy. Here the author finds that with the necessary consistency in manipulating production, consumption, wages, and

foreign trade any exchange rate can be indefinitely maintained without unbalancing the national economy. Several tables of exchange rates, wage and price levels for various European countries are included and analyzed in the light of the theory.

JOHN V. SPIELMANS

SCHORER, E. *Das Wesen des Zinses.* (Jena: Fischer. 1939. Pp. xii, 156. RM. 5.)

WERMEL, M. T. *The evolution of the classical wage theory.* (New York: Columbia Univ. Press. 1939. Pp. xii, 190. $2.25.)

In this study the author begins with an examination of the views of seventeenth century writers regarding labor and wages, and follows the evolution of wage theory down to Ricardo and Lassalle. He shows that in the early part of the period covered there was a widespread belief that efforts should be made to keep wages as low as possible. It was claimed that low wages tended to lower production costs. Moreover, poverty was considered to be the most dependable stimulus to diligence; while high wages were condemned as a cause of indolence and a danger to the nation. Mandeville voiced the thought of his day when he said that national wealth consisted in "a multitude of laborious poor" (p. 5). Gradually this idea of the desirability of low wages gave way to a belief in the tendency of wages to fluctuate around a subsistence level. Thus to Ricardo a subsistence rate of wages appeared to be a natural rate.

All the writers assumed that wages were fixed by competition. In this connection the Physiocrats emphasized the part played by labor migration. The English Classicals developed a theory of supply and demand in which natural increase of the labor supply was stressed; and with this shift of emphasis the pressure upon wages took on a much more formidable aspect. In formulating his theory of wages, however, Ricardo drew more freely from Smith than from Malthus. As for Lassalle, he was concerned with the political implications of the law of wages; but perhaps his chief contribution consisted in giving it a new name. Having been termed the "cruel and iron law of wages" it was only to be expected that it should attract wide attention and arouse bitter controversy.

This book has merit as an example of careful economic analysis. It portrays the evolution of an important part of classical economic doctrine, and gives a good summary of the developments which led to the definite linking up of wage theory with the law of diminishing returns from land and the Malthusian theory of population.

J. E. MOFFAT

## Economic History and Geography

*Government and Economic Life: Development and Current Issues of American Public Policy.* Vol. I. By LEVERETT S. LYON, MYRON W. WATKINS and VICTOR ABRAMSON. (Washington: Brookings Institution. 1939. Pp. vi, 519. $3.00.)

It is impossible even to essay a definitive review of this book since it is the first of two separately published volumes designed to complement each other in providing an analysis of "the relationship of government to economic life as a whole in terms of fundamental economic and social func-

tions and fundamental governmental activities." This first volume is addressed to governmental implementation and regulation of private enterprise generally; and the second, soon to be off the press, deals "with those segments of economic life and those occasions in which governmental action has taken special forms or gone over into direct governmental production."

While the authors have apparently found what they regard as a clear-cut dividing line between the subject matter of the two volumes, it is not sufficiently self-evident to permit a confident appraisal of the first volume without having the second volume at hand. For example, your reviewer was prepared to note critically that for some mysterious reason the authors had omitted a discussion of the tariff from their first general volume when a conversation with two of the authors—the Messrs. Lyon and Abramson—disclosed that they regard the tariff as providing a case of special treatment of private enterprise, and have included the discussion of it in their second volume as something akin to the special treatment accorded transportation, agriculture and the bituminous coal industry. This arrangement seems debatable but the debate must remain bootless until the whole work is available.

In addition to disposing of my puzzlement about the omission of the tariff from volume I, my conversation with the authors also eliminated most of the other critical points I had set down as the framework of a review. I had remarked that the volume is notably short on simple and lucid explanation of the whyfor of many of the governmental relations to economic life with which it deals; but, in the light of the authors' conversational indication that they were directing the book to an economically sophisticated audience, this observation may become largely irrelevant. Likewise, it may well not be necessary to humor such an audience by using an entertaining literary style—a very difficult thing for a joint authorship to do—but I could not see why the book should be quite so completely dehydrated in this regard.

However, the fact that the book was designed for relatively expert rather than popular consumption raises a question, properly to be considered only when both volumes are available, as to whether or not it fails to make a contribution to expert enlightenment worthy of the effort it embodies while sacrificing the opportunity to relieve directly popular ignorance in the field which it traverses. In attempting to analyze no less than "the relationship of government to economic life as a whole" in two volumes, even fairly fat volumes, the analysis must necessarily be spread so thin relatively that the possibility of broadening the range of expert knowledge and understanding is therefore limited. The authors also do not seek by argument to broaden the range of conviction about what should be done to solve the

problems they discuss, but merely outline dispassionately "current trends and frontier issues."

Whatever the verdict on the scientific value of the study as a whole it will not alter the fact that along with much conventional retelling of time-worn stories there are considerable segments of the first volume which bring important developments up to date or assemble old material in new and suggestive ways. For example, a series of chapters on governmental dealings with cases of concerted action among workers constitute a particularly trenchant and timely contribution to this tortured field. Also, a discussion of standards, research and the collection and dissemination of information as a phase of governmental implementation of private enterprise assembles materials which I expect many members of the economists' craft will find novel. While the field is not one in which I have technical competence, I am told by colleagues who have such competence that the discussion of "A monetary mechanism," treated (I understand by Charles O. Hardy for the most part) as one of the instrumentalities by which the government implements private enterprise generally, is a singularly well rounded job.

Of course, only a battery of reviewers equipped with a range of knowledge and competence as broad as that of its battery of authors is capable of coming to close critical grips with all parts of this book. In general, I envisage only one serious complaint about the book from the craft of professional economists and this from the teaching wing on jurisdictional grounds. They may feel that the Brookings Institution ought to work its research side of the street and not invade the college textbook field, traditionally an academic preserve, as completely as it has in this case. Perhaps, however, such complaint will be stilled by the fact that the book leaves ample room for more detailed and more fully explanatory studies of all of the phases of governmental relations to economic life which it discusses. At any rate, I understand no jurisdictional complaint has been made thus far. In fact it seems that the book is being used as a backbone book for college courses on its general subject matter, and well it might.

DEXTER M. KEEZER

*Reed College*

*An Introduction to World Economic History since the Great War.* By J. P. DAY. (London and New York: Macmillan. 1939. Pp. xi, 161. $1.15.)

"This book," the preface announces, "is an attempt to give such students [born since 1918], in the briefest possible form, some explanation of the economic damage caused by the Great War and of the subsequent progress towards recovery." The author anticipates the obvious charge that he has

attempted too much within the compass of 161 small pages by stating that the work is intended merely as an introduction to an outline of the subject.

The Great War destroyed economic stability through upsetting the approximate economic equilibrium upon which it was based. In addition to a host of maladjustments, that great catastrophe left the world legacies of debt, distrust, and fear. The fall in prices between 1920 and 1922 seriously worsened an already bad situation through practically doubling debts. The inevitable depreciation of currencies which followed, plus reduced costs attributable to the rationalization of industry, and the development of new industries resulting from new inventions brought a substantial degree of recovery. The failure of the 1927 Geneva Conference to achieve freer trade, marks a turning point in economic history since the war.

The 1929 crash, the resultant economic nationalism, the cessation of United States loans to Europe, the 1931 credit crisis, the Japanese invasion of Manchuria, the collapse of the Lausanne Agreement, and the banking crisis in the United States ushered in the world's greatest depression. The second period of currency devaluations, extending from 1931 to 1936, brought some relief, but the measure of recovery was less substantial than it would have been had devaluation been accompanied by a return to the gold standard and not handicapped by political tension abroad and a feeling of uneasiness engendered in the United States by the economic program of its government.

Professor Day poses his own conundrum in the following words: "Not until there is political stability can there be economic stability, and not before economic stability can there be a restoration of an international standard of value, the lack of which bears so much responsibility for the hampering of human effort at supplying human needs" (p. 149). Apparently the stabilizer cannot stabilize until the instability caused by its absence is remedied! And he is reluctant to accept intervention in the place of reliance on the forces of the market which have produced the chaos resulting in the intervention he distrusts. An outline of either economic history since the war or of the theory underlying that development seems a heavy task for such a short work. To attempt both is to achieve neither. Fortunately Professor Day confines his theoretical discussions to a page or two and so saves his history from complete superficiality. Even so, an outline of the soviet experiment relegated to the appendix and devoting one and one-half pages to the period of war communism, one and one-third pages to that of the New Economic Policy, and four and one-half to that of the Planned Economy seems hardly understandable except on the basis of justifying the title of the work. Surely it would have been better to change the title.

Despite these flaws, the book is of value for the elementary student

for whom it is obviously intended. It is well and simply written, terse, and to the point. The problems stand clearly delineated against their historical background. Even if its theoretical digressions raise more questions than they attempt to answer, it is at least a good introduction to a study of world economic history since the war.

LORNE T. MORGAN

*University of Toronto*

*Casebook in American Business History*. By N. S. B. GRAS and HENRIETTA M. LARSON. (New York: Crofts. 1939. Pp. viii, 765. $5.00.)

In this book the authors present forty-three cases in business history, taken from the period beginning in the latter sixteenth century and ending in 1939. The majority of the cases deal with the life histories of business-men and of business enterprises. A few deal with general business developments and economic trends.

The organization and development of the materials differ somewhat from case to case, but chronological development is stressed in all. Some cases are long, others comparatively short. Some are developed mainly in the authors' own words, others are made up in greater measure of well selected quotations from primary and secondary sources. In a number of cases, much valuable new information, taken from heretofore unpublished materials—business records, account books, correspondence, etc.—is presented.

The objective is to give the reader insight into the actual workings of business enterprises that are typical of the important periods in the development of economic society. Emphasis throughout is definitely placed upon business policy and business management and the decisions of business-men in pursuit of profit. The concluding section of the book (chapters 37 to 43) departs somewhat from this emphasis by taking up secular trends in business conditions. But even here the interrelationships between general economic developments and changes in the size, forms, and policies of business enterprises are stressed.

Thirty-eight of the forty-three cases or problems are drawn from American experience. The subjects range from the better known business concerns and individuals such as J. Pierpont Morgan; E. H. Gary and the United States Steel Corporation; the New York Stock Exchange; the Second Bank of the United States; John Jacob Astor; and Cornelius Vanderbilt, to individuals and firms about which little has heretofore been published, such as the First National Bank of Boston and the First National Bank of New York; the Mutual and Equitable Life Insurance Companies; John P. Cushing (an investor, 1828-1862); Thomas Willing and Company (early marine underwriters); William Duer (contractor and speculator, 1747-1799); Cincinnati Southern Railway; and N. W. Ayer and

Son (advertising agency, 1869-1939). To supplement this rich variety of experience at home, the authors have added five cases selected from European business history because of their "unique contributions." They concern Sir Thomas Smythe and the Virginia Company; Boulton and Watt; Josiah Wedgewood; John Law, and Hugo Stinnes.

The organization of the book is designed to give the reader a sense of perspective. This is accomplished by classifying the cases under the forms of capitalism they represent: Mercantile Capitalism (7 cases, 87 pages) Industrial Capitalism (23 cases, 360 pages) and Financial Capitalism (8 cases, 144 pages). A short chapter on National Capitalism deals very briefly, and in a general way, with recent economic systems such as fascism and nazism abroad, and developments such as the New Era and New Deal at home. There are no cases dealing exclusively with the earliest form of business—petty capitalism—although recognition is made of the importance of the petty capitalist (the shopkeeper and the storekeeper) in a brief introductory section describing the essential features of each of the different types of capitalism.

Those who have read the companion book *Business and Capitalism* (Crofts, 1939) by the senior author are familiar with his point of view and his contribution to our understanding of the development of private capitalism. The more detailed treatment of specific instances in the *Casebook* fits neatly into the framework provided by the more general book, and the two can be profitably read and used together.

The authors state that the *Casebook* is designed primarily for use in courses in business history where the "case method" of instruction is used. Helpful suggestions for the use of the cases, and a complete outline of a course in business history, with specific assignments, are provided in an introductory chapter. As a further aid to study, a list of suggested readings and one of suggested questions are appended to each case. Analysis and insight into the "various possible choices of action and the implications thereof" rather than mere fact-accumulation are emphasized. The book has no index but this does not detract seriously from its usability.

It is next to impossible to describe the scope and content of these interesting case histories in a brief review. They cover various branches of manufacturing, trade, commercial banking, investment banking, security exchanges, shipping, advertising, and railroads, in varying length and emphasis. The treatment is generally objective and scholarly, the cases being used as devices for studying business and economic problems rather than as instruments for assessing moral blame or praise, although ethical considerations are sometimes mentioned.

Those who are interested in decisions of business-men in the past as a possible guide to understanding business problems of the present will find this pioneer work valuable, perhaps indispensable. But its importance is

by no means limited to its vocational usefulness. Those not primarily interested in business history as such will find in these 765 pages a most valuable reference work, containing a mine of information on the social and economic aspects of private enterprise. All readers will be better able to understand the problems of our times—depression, bankruptcy, war economics, disequilibrium, social upheaval, speculative booms, money scarcity, reflation, and insecurity—for they will meet them again and again in these chronicles of the lives and times of business-men and institutions.

CHELCIE C. BOSLAND

*Brown University*

*Guatemala: Past and Present.* By CHESTER LLOYD JONES. (Minneapolis: Univ. of Minnesota Press. 1940. Pp. xii, 420. $5.00.)

This study represents a substantial contribution by one who has already done pioneering work in Central America and the Caribbean. Professor Jones has found it advisable to divide his exposition into three parts concerning Guatemalan political development, economic advance, and social life, respectively. In each of these parts the story is unfolded from the time of the conquest to the present day. Furthermore, separate chapters on some of the functional topics (*e.g.*, land, currency, public services, population) carry the treatment from the beginning to the end.

Guatemalans have endured forced labor in one form or another right from the time of the conquest; and the institution is traced through the *encomienda,* the New Laws of 1542, the *mandamiento,* and the more recent vagrancy laws. As for land, the republic's chief problem has been to get the public domain under cultivation. Ownership by foreigners has tended to increase, but such appropriation has not become an issue as in Mexico. In foreign trade, we see a progressive change in monoculture which reminds us of Brazilian history: at first gold was the chief export; then cacao, indigo, and cochineal followed successively; later, the dyestuffs were replaced by coffee and bananas, which add up to ninety per cent of present exports. Guatemala has long shared her neighbors' difficulties in meeting the service on foreign loans; but she has been exceptionally fortunate in securing reductions since the world depression. A remarkable feature of her currency experience is a banknote inflation (geared to the public debt) which grew progressively more acute between 1897 and 1925 and subsided only when the paper was retired by conversion to a new coin (the quetzal) at a ratio of sixty to one. In this connection, it may be questioned whether the author has given sufficient attention to the banking history, particularly the individuals and firms connected therewith. Indeed, his treatment of the personal element in the economic and social sections of the book falls considerably short of that in the political part.

The last chapter ("If I were dictator") contains the therapy required by

the diagnosis. The situation, by no means confined to Guatemala, has always been handled by dictators and the reasons therefor are ably stated (see also chapter 9); furthermore, the outlook for democracy in the near future cannot be considered bright among a people characterized by an average net income of $32.00 per year, a rate of illiteracy which came to 86.82 per cent in 1921 and was increasing in some departments, and a proportion of whites amounting to less than one per cent. Briefly, Professor Jones looks for a benevolent dictator who would (1) keep order; (2) develop the transportation facilities—a most difficult problem in the highlands, to which settlement has been confined by climate and disease; (3) build an efficient public health service; (4) introduce an educational system; and (5) find ways and means to diversify agricultural production, which is expected to remain the backbone of national subsistence. The dictator, it is hoped, would retire at the accomplishment of his program, since conditions favorable to the maintenance of democracy would have arrived.

The photographs and statistical maps are valuable accessories to a straightforward—almost too sober—text, which is also accompanied by careful documentation and a thorough bibliography.

THOMAS S. BERRY

*Duke University*

*American Policy in the Far East: 1931-1940.* By T. A. BISSON. *The Existing Legal Situation as It Relates to the Conflict in the Far East.* By QUINCY WRIGHT. *German Interests and Policies in the Far East.* By KURT BLOCH. *Australia's Interests and Policies in the Far East.* By JACK SHEPHERD. *New Zealand's Interests and Policies in the Far East.* By IAN F. G. MILNER. *Japanese Industry: Its Recent Development and Present Condition.* By G. C. ALLEN. *The Problem of Japanese Trade Expansion in the Post-War Situation.* By MIRIAM S. FARLEY. (New York: Inst. of Pacific Relations. 1939. Pp. x, 146; vii, 129; xii, 75; xii, 212; ix, 131; x, 124; x, 93. $1.25; $1.00; $.75; $1.75; $1.00; $1.00; $.75.)

These seven Institute of Pacific Relations Inquiry reports, varying in length from seventy-five to two hundred twelve pages, provide a useful summary and critique of some of the major international problems of the Pacific and the Far East. Mr. Bisson, whose emphasis is primarily political, outlines the main facts and trends of American diplomacy in the Far East since 1931, supplementing his text with a selection from the Department of State's *Press Releases* of the more important documents relating to Far Eastern affairs. In equally brief compass Mr. Wright surveys the tangle of treaty rights and the wreckage of covenants in the path of Japanese imperialism. The three reports dealing with Germany, Aus-

tralia and New Zealand, as may be inferred from the word "interests" in their titles, have more to say concerning economic matters, while these are the chief concern of the remaining two on Japanese industry and trade.

With many full and excellent statistical tables, Mr. Bloch describes the none-too-secure economic foundation of the German-Japanese political collaboration that ended with the demise of the anti-Comintern Pact. Until the World War, Germany's trade with China had been of greater importance than her trade with Japan, and her financial interest in the exploitation of China had led her into sharp competition with Japan. After the war, these relationships had tended somewhat to reassert themselves. Up to and during the first year of the present Sino-Japanese War, German industry, banking, shipping and commerce retained a solicitous interest in China that was not offset by Japan's larger importations of German products. This interest was no doubt enhanced by the importance to Germany of the Netherlands Indies, a source of raw materials which stood in some jeopardy from Japan. Hence German sales of munitions to China and the German tutelage of the Chinese army that persisted even after the Berlin-Tokyo *mariage de convenance*. Though Mr. Bloch does not predict what will happen when peace permits a full resumption of the German economic activities analyzed in his report, he suggests in his preface that Germany's historic interest in China may be stimulated anew by the twin currents of Soviet-Chinese and Soviet-German political friendship.

The reports on Britain's two Pacific Dominions show that they view the Far East through different eyes than the Great Powers of Europe and the United States. To the latter, as Mr. Shepherd observes, "the 'Far East' is geographically remote, but for the small Pacific countries, it is very close at hand. Economically, the Great Western Powers think of the whole Far East as a field for investment, they think of China as a market for their manufactured goods, and they have come to think of Japan in recent years as a dangerous competitor in the markets of the world. The small Pacific countries, on the other hand, are themselves fields for investment and have no significant financial stake in Eastern Asia; they look upon the Far East as an important market, but for foodstuffs and raw materials rather than for the products of secondary industry; and Japan for them is a useful supplier of cheap manufactured goods instead of a dangerous competitor." Add to these considerations the life-and-death importance of national security to the virtually undefended countries thus situated, and you have the clue to the complicated nexus of British imperial, dominion, and Japanese economic and political relations analyzed in considerable detail by Messrs. Shepherd and Milner.

It is, however, the works of Mr. Allen and Miss Farley which should hold the greatest interest to readers of the *American Economic Review*. Moreover, it is these which, in the opinion of the reviewer, make the most

valuable contribution to our study of Far Eastern and Pacific affairs. For of all the gaps in our knowledge of the field, that which should be filled by scholarly analysis of its economics is surely the greatest. This is especially true of Japan's economy, which has been the subject of more wishful predictions of doom than it has of sober, realistic appraisal. The latter is ably supplied by Mr. Allen and Miss Farley whose memoranda, replete with statistics, throw much light upon Japan's waning but as yet considerable economic strength.

A. Whitney Griswold

*Yale University*

*Colbert and a Century of French Mercantilism.* By Charles Woolsey Cole. Vols. I and II. (New York: Columbia Univ. Press. 1939. Pp. xii, 532; 675. $10.00, the set.)

From 1582, when Laffemas became Henry of Navarre's *valet de chambre*, to 1683, the year Colbert died, there was enunciated in France a very ordinary brand of economic thought that provided justification for a most extraordinary variety of governmental activity. All of which is less paradoxical than it seems: the economic doctrines were mostly vestigial, localistic ideals; the heroic governmental activity represented attempts to realize these ideals on a nation-wide scale. Four-fifths of this "century of French mercantilism" might properly be called a period of preparation for twenty-two years of intense effort to stimulate French commerce and industry. This intense effort occurred during the ministry of Jean-Baptiste Colbert and was, to a large extent, a personal achievement.

To a meticulous analysis of this century of economic policy Professor Cole has devoted 1,090 pages (not counting appendices), 25 per cent of the total space to the 79 years from 1582 to 1661, 75 per cent to those amazing, project-sprouting years (1661-82) when Colbert was Louis XIV's chief minister. Although the 277 pages dealing with the pre-Colbertine age suffer considerably from repetition, prolixity and unnecessary detail, they show clearly the penchant of Colbert's forerunners for sea power, foreign trade, and manufacturing. For the most part, however, the kind of economic planning which Colbert attempted to institute after 1661 found expression during the pre-Colbertine era more often in pamphlets than in actuality. Quite properly, then, Professor Cole sets about to trace the evolution of economic ideas from Laffemas to Colbert. He does it cautiously and literally; in turn the writings of every eligible predecessor of Colbert (*e.g.*, Laffemas, Monchrétien, Eon) are catalogued, without much attempt to appraise them in terms of appropriate criteria. I assume Professor Cole has deliberately chosen this procedure rather than the synoptical methodology employed, for example, by Professor Heckscher in dealing with mercantilist ideology. At any rate, no critical rubrics disturb Cole's chronology;

one after another the writers pass in review, repeating old dogmas, adding new items to a creed of economic policy. Cole calls this enfolding creed "economic theory"; but as far as I can see the pre-Colbertine economic literature is a mosaic of economic policies, not economic theory in any genuine sense.

The real substance of Cole's work is the Colbertine era, that incredible chapter in economic history, nothing in any way comparable, Cole argues (II, 362) before the Russian five-year plan. In richness of detail, and in completeness of coverage, Cole has superseded all previous studies of Colbert's many-sided attempt to make France the leading industrial and commercial nation of Europe. Manuscript sources have been ransacked, printed materials searched, secondary accounts appraised critically. Each and all of the foreign-trade ventures have been explained, all of the industrial projects. The regulative aspects of Colbert's bureaucracy have received the same assiduous attention; Cole's detailed exposition of local regulations, for example, corrects the over-simplification in Heckscher's account of French industrial regulations. In Cole's work will be found the whole story so far as documentary evidence reveals the whole story. Here is an account of Colbert's hopes and achievements, a record of state subsidies to dozens and dozens of ventures; here is the story of new monopolies running afoul of vested interests and administrative inexperience, of diplomats turned labor scouts; here we see Colbert distributing blooded stallions, "flexing" the tariff, shutting up the poor in industrial *hôpitaux*, or writing his voluminous letters to the inspectors of manufactures. Like Rabelais' Friar John, Colbert was everywhere, driving his personnel; a master diplomat, a master disciplinarian, never idle, never satisfied!

Yet, much as I admire the completeness of Cole's realistic survey of Colbert's industrial and commercial experiments, I cannot but regret that so many interpretative and analytical opportunities have slipped by unnoticed. There were basic reasons why Colbert's lavish subventions did not fertilize French industrial development; there were basic differences between French and British entrepreneurial practices which Cole does not signalize, differences which go far toward explaining the chronic laggardness of French enterprise. With visions of a monumental work on Colbert, Cole was too preoccupied with laying all the minutiae of evidence before his readers. Why detail the week by week progress of company negotiations (II, 159-170) or the exact procedure whereby Auxerre established a poorhouse (II, 486) and leave much more important issues untouched?

There is nowhere any adequate analysis of the reactionary theory of business enterprise which lay behind Colbert's ventures and Colbert's regulative measures. The very best statistical evidence of the fruitional consequence of Colbert's efforts has been relegated to an appendix. There is repeated criticism of Colbert's belief in a "static economy" but no attempt

to analyze the demand inelasticities which partially justified this interpretation. All the evidence about the iron and steel industry occupies only one and a half pages but its paucity calls forth no comment. In a century of French mercantilist thought which Cole describes, the monetary literature is virtually untouched. There is no intimation that the foreign-trade policy of France often amounted to a subtle kind of dumping.

I have a feeling that Cole has been over-zealous in detailing evidence and for that reason he has failed to ask enough questions about his materials. He hazards no generalizations, except of a recapitulative nature. I wish Professor Cole could now be persuaded to write a smaller, more succinct, more quantitative, more critical book on Colbert. I cannot help thinking that this would be the way to make his years of research genuinely useful.

E. A. J. Johnson

*New York University*

NEW BOOKS

Bakken, H. H. *Coöperation to the Finnish.* (Madison, Wis.: Mimir. 1939. Pp. x, 220. $2.50.)

Brunk, J. W. and Franklin, H., editors. *Brazil yearbook and manual, 1940.* (New York: Brazil Yearbook. 1940. Pp. 352. $3.75.)

Burky, C., de la Harpe, J. and Wackernagel, J. *La Suisse et l'autarcie.* (Paris: Inst. Internat. de Coöp. Intellectuelle. 1939. Pp. 164.)

In this volume three Swiss university professors examine, in separate essays, the principles and practices of autarchy in relation to the problems and organization of the Swiss social economy.

The first essay, by Professor de la Harpe of the University of Neuchatel, is a general discussion of autarchy including its historical derivation. He develops the argument that autarchy is not merely a phenomenon having as its goal the self-sufficiency of the economy, but that it also manifests itself in other social spheres as mystical racism, political nationalism, etc. In discussing the causes of autarchy, de la Harpe offers the suggestion that it might be a twentieth century reaction to the economic, political, and social liberalism of the nineteenth century. Such a cyclical or "action-reaction" type of philosophy of history, in the opinion of the reviewer, over-simplifies any analysis of historical change.

The two other essays of the volume deal more directly with the economics of autarchy and especially Swiss autarchy. Obviously for Switzerland self-sufficiency is impossible. Her natural resources are extremely scarce, the greatest of them being, perhaps, the industrial skill of her population and a fairly abundant hydro-electric supply. Consequently, autarchical measures for Switzerland consist in what might be simply called protective tariff, trade and monetary measures. Both Professor Burky of the University of Geneva and Professor Wackernagel of the University of Basel agree on this. Both also agree that even totalitarian Italy and Germany, lands with a greater variety of resources than Switzerland, have never seriously followed a policy directed to *complete* national self-sufficiency.

The major difference between Burky and Wackernagel seems to be in the evaluation, from the point of view of social desirability, of a protective or

autarchical policy. The former offers what might be considered an *apologia* for Swiss post-war economic policy; the latter offers what might be considered a spirited justification of it. Wackernagel's justification is based on broader grounds than mere expediency. Both are in approximate agreement in their analyses of the economic factors which forced Switzerland to establish quota systems in international trade, to devalue in 1936, to subsidize agriculture, etc. They disagree primarily in the long run with the social desirability of a restrictive policy as compared with a free trade, liberal policy. To one who is not sympathetic with either the narrow economic, or broader social principles of autarchy, it seems as if Wackernagel has made necessity a virtue in Swiss social policy.

SIDNEY C. SUFRIN

COLBY, C. C. and FOSTER, A. *Economic geography: industries and resources of the commercial world.* (Boston: Ginn. 1940. Pp. 719. $1.92.)

FRANK, T. *An economic survey of ancient Rome.* Vol. V. *Rome and Italy of the Empire.* (Baltimore: Johns Hopkins Press. 1940. Pp. xvi, 445.)

FREUND, M. K. *Jewish merchants in colonial America: their achievements and their contributions to the development of America.* (New York: Behrman's Jewish Book House. 1939. Pp. 128. $1.50.)

GÜLICH, W. *Die Bibliothek des Instituts für Weltwirtschaft: Voraussetzungen und Grundlagen weltwirtschaftlicher Forschung.* (Jena: Fischer. 1939. Pp. 87.)

HANKE, L. and D'EÇA, R., editors. *Handbook of Latin American studies: 1938. A selective guide to the material published in 1938 on anthropology, archives, art, economics, education, folklore, geography, government, history, international relations, law, language and literature and libraries.* (Cambridge: Harvard Univ. Press. 1939. Pp. xvi, 468.)

Pages 76-150 are devoted to economics. Max Handman furnishes the titles and annotations on Brazil; D. M. Phelps on the remainder of South America; and Chester Lloyd Jones on the Caribbean area.

HEISS, F., editor. *Deutschland und der Korridor.* (Berlin: Volk und Reich Verlag. 1939. Pp. 311.)

Contains many maps and illustrations.

HERRING, J. W. *Trails to the new America.* (New York: Harper. 1940. Pp. viii, 160. $2.)

HERSKOVITS, M. J. *The economic life of primitive peoples.* (New York: Knopf. 1940. Pp. xii, 492, xxviii. $4.50.)

HOFFMANN, W. *Wachstum und Wachstumsformen der englischen Industriewirtschaft von 1700 bis zur Gegenwart.* Probleme der Weltwirtschaft 63. (Jena: Fischer. 1940. Pp. x, 284. RM. 16.)

ILLYEFALVI, L. I. *Statistisches Jahrbuch der Haupt- und Residenzstadt Budapest.* XXVI Jahrg. (Budapest: Kommunal-Statistisches Amt. 1938. Pp. xii, 580. 15 Pengö.)

JENNINGS, M. *A pioneer merchant of St. Louis, 1810-1820: the business career of Christian Wilt.* (New York: Columbia Univ. Press. 1939. Pp. 219. $2.50.)

To use the words of the author, the purpose of this study is to show "the rôle played by the business-man in the growth and development of pioneer life." The activities of Christian Wilt, a pioneer merchant of St. Louis in the years from 1810 to 1820, were taken as an illustration of the varied enterprises of this type of man. Successful persons of the mercantile class were

leaders in the community. They were not only merchants, but often manufacturers, promoters of means of transportation, developers of natural resources, and sometimes money lenders. In addition, the community looked to them for civic leadership. Thus, they were often involved in politics, in military affairs, and they were usually the promoters of local cultural activities. Versatility seems to have been one of their leading traits. Occasional misfortune was not regarded as a handicap, but only as a challenge to try again, perhaps at something else. Of such characteristics was Christian Wilt.

Naturally, a study of this description involves excursions into such activities as manufacturing, merchandising, transportation, credit methods, labor conditions, wages and prices. Also it leads to a study of the cultural aims and values of a community. With respect to Sister Jennings' study, these matters are treated primarily from the point of view of enterprise at St. Louis. But here and there in the volume one gets a glimpse of the interlacing of various local interests with those of other communities near and far. The author has had access to material which is not usually available to students of history. The work is thoroughly documented.

I. LIPPINCOTT

KNOOP, D. and JONES, G. P. *The Scottish mason and the mason word.* (Manchester: Manchester Univ. Press. 1939. Pp. x, 114. 7s. 6d.)

The use of stone as a building material began at least as early as 1288 when Stirling Castle was begun, but stone buildings were not very common in Scotland until the fifteenth century. There is little evidence of formal organization among masons until the sixteenth century, when it became common to require that masons be freemen of the towns in which they work. At the close of the century the organization of working masons was considerably extended by the establishment of territorial lodges and the development of rules to permit masons to work in areas outside their own lodge. The new organization had two functions: the exclusion of unauthorized workers, and the opening of a wide territorial area to all authorized masons. An unauthorized worker was called a "cowan" or "lewis." The term "cowan" was used originally to describe a worker who laid dry stone walls. This meaning survived, but during the sixteenth century the term was used to include persons who worked with mortar without having served an apprenticeship, or without qualifying as an apprenticed mason. The earliest statutes describing this new organization are the Schaw Statutes of 1598 and 1599. References in charters of 1601 and 1628 afford evidence of the territorial relationships among the lodges, and the Falkland Statutes of 1636 provide for all the contingencies arising out of the new arrangements. Increased mobility and the policy of excluding "cowans" made it desirable to have means of identifying accepted masons, but we have no means of dating with precision the introduction of the "Mason Word." The earliest records of the actual ceremonial of admission are to be found in the constitutions of 1696 and 1700.

ABBOTT PAYSON USHER

KÖNIG, E. *Die Sozialpolitik in Palästina, mit besonderer Berücksichtigung des gewerblichen Arbeiterschutzes.* (Zürich: Polygraphischer Verlag A.-G. 1939. Pp. 279. Fr. 9.)

Besides the modest achievements of the British mandatory power in Palestine, mostly in the field of public works, the rôle of political and economic bodies of private character has been more important. The Zionist Organiza-

tion, the Jewish Agency (both organs of world Jewry), the Jewish National Council (a self-government of the Jewish community in Palestine), trade-unions of the General Federation of Labor and religious workmen's organizations contribute to the development of the social situation of the wage-laborer in the Holy Land. Owing to national contrasts between Arabs and Jews, as well as differences between the rather radical zionist movement and conservative English high-commissioners, this collaboration of coöperative and governmental groups alone can, in the opinion of the author, overcome these obstacles to a solution of Palestine's complex labor problems.

PAUL UCKER

KONOVALOV, S., editor. *Results of the Second Five-Year Plan and the project of the Third Five-Year Plan.* Memorandum no. 12. (Birmingham, England: Univ. of Birmingham Bur. of Res. on Russian Econ. Cond. 1939. Pp. 21. 2 sh.)

This memorandum prepared by the Birmingham Bureau in collaboration with prominent Russian emigré-economists, Baykov and Prokopovich, summarizes from soviet sources the development of soviet industry, agriculture and railway transport since 1928. A careful reference, with short critical remarks, is made to sources used for all data presented in the statistical summary. In the appendix appear the population statistics from the two censuses of 1926 and 1939.

PAUL HAENSEL

MCCARTY, H. H. *The geographic basis of American economic life.* (New York: Harper. 1940. Pp. xxiii, 702. $3.75.)

A useful text in economic geography. The United States is divided into ten major regions which have distinct types of economic development. Where possible the volume of production is measured as income produced; elsewhere by the relative number of persons gainfully employed in various occupational groups. The text is supplemented by references and nearly 100 charts and maps.

MADDOX, W. P. *European plans for world order.* James-Patten-Rowe pamph. ser. no. 8. (Philadelphia: Am. Acad. of Pol. and Soc. Science. 1940. Pp. 44. 15c.)

PHELPS, D. M., editor. *Economic relations with Latin America.* Proc. of conference held as part of the Inst. of Latin American Studies, Ann Arbor, August 11-12, 1939, under joint auspices Committee on Latin Am. Stud., Am. Council of Learned Soc., and Univ. of Michigan. Michigan bus. papers no. 6. (Ann Arbor: Univ. of Michigan Bur. of Bus. Res. 1940. Pp. 75. $1.)

RICCI, U. *La politica annonaria dell' Italia durante la grande guerra.* Biblioteca di Cultura Moderna n. 344. (Bari: Gius. Laterza. 1939. Pp. 363. L. 25.)

ROBERT, P. *La politique d'isolement économique: le problème pour la France.* (Paris: Domat-Montchrestien. 1940. Pp. 98.)

In the first two-thirds of this short brochure the author sketches the economic, financial, and political causes of the surge toward economic isolation since the first World War, the means of achieving this isolation, and the consequences of a policy of self-sufficiency. The last third examines various possible economic policies for France. Unrestricted free trade is rejected. Autarchy of the French empire is impracticable: the empire is self-sufficient in foodstuffs, but almost completely dependent on the outside world for such vital raw

materials as cotton, oil, copper and mercury. The author suggests a combination of empire preference and moderate protectionism as a desirable policy for France.

W. F. Stolper

Rosenstock-Franck, L. R. *Les étapes de l'économie fasciste italienne: du corporatisme à l'économie de guerre.* (Paris: Lib. Soc. et Econ. 1939. Pp. 281. 30 fr.)

This volume is a sequel to the excellent study of the fascist syndical and corporate system which Mr. Rosenstock-Franck published six years ago under the title *L'Economie Corporative Fasciste en Doctrine et en Fait* (Paris, 1934). A comprehensive critical analysis of that system led Mr. Franck to the conclusion that its major weakness lay in the lack of freedom of its members, a defect which made of it little more than a convenient tool used by the fascist regime for the furtherance of its political ends.

In the present volume these ends and the means used to achieve them are further explored. During the last six years, Mr. Franck points out, the goal of fascist economic organization and policy has shifted from what he calls "the illusion of corporatism" to" the realities of a war economy." The ultimate goal of present-day fascist economic policy is, clearly, the achievement "within the shortest possible time of a maximum of economic independence and of military power." The bulk of Mr. Franck's volume is devoted to an analysis of the means through which the achievement of these goals is sought. There are informative chapters on the new system of credit control and bank supervision established in Italy in 1936, on the present rigid control of foreign trade and of the foreign exchanges, on the control of domestic prices, on the government's elaborate plans for the achievement of economic self-sufficiency. There is, furthermore, an illuminating discussion of the rôle which the syndical and corporate system is called upon to play in the government's present program of economic autarchy, and a thoughtful evaluation of the broad social consequences of the turn which economic events in Italy have taken in recent years. Throughout the volume the analysis of economic policy is aptly supplemented by citations of statistical data intended to provide an appropriate factual background for the discussion.

William G. Welk

Shotwell, J. T. *What Germany forgot.* (New York: Macmillan. 1940. Pp. vi, 152. $1.50.)

Smith, J. R. *Industrial and commercial geography.* New ed. (New York: Holt. 1939. Pp. 971. $4.50.)

Thompson, L. *Fijian frontier.* (New York: Inst. of Pacific Relations, Am. Council. 1940. Pp. xxiii, 153. $2.)

Vianello, C. A. *La riforma monetaria in Lombardia nella seconda meta del '700.* Annali di Economia, vol. xiii, n. 2. (Padua: Antonio Milani. 1939. Pp. xxiv, 257.)

The treaty of Aix-la-Chapelle brought the Austrians into Milan, where they ousted the Spanish bureaucracy and introduced an era of reforms. There had been many centuries of monetary disorder, unrelieved by the coming of precious metals after discovery of America. Reform began with the efforts of the Governor Pallavicini initiated as early as 1751, and culminated in the act of 1778.

Vianello's study is not concerned primarily with the details of the reform

achieved, but much more with the steps by which it came about. There is a brief introduction, but the bulk of the volume consists of the texts of contemporary reports, proposals and comments. Mainly, these stem from the years 1766-72 and appear in chronological arrangement, except that the important Kaunitz report of 1776 is given first place of all on the ground that it briefly recapitulates the earlier discussions. In addition to the official documents a number are presented that pretend to no intrinsic interest for monetary reform but reflect the views of private persons who speak from a special background of their experience.

ROBERT F. FOERSTER

WALKER, E. R. *War-time economics, with special reference to Australia.* (Melbourne: Melbourne Univ. Press. 1939. Pp. 174. 5s.)

This thoughtful little book was written in the belief that economists could make a contribution toward solving problems of war which are primarily economic, and it reflects credit upon the profession. Besides giving a summary and evaluation of the steps taken by Australia, it poses and explains the elements of war economics in general terms. The book contains few surprises and it is over-ambitious, but to my knowledge no better survey of and introduction to the subject is available.

The exposition throughout stresses the need of thinking of war economics in "real" and not in "monetary" terms. (So do fashions change.) Idle resources will have to be brought into employment and some resources employed in civil will have to be transferred to war work. To these ends government can employ fiscal measures and direct controls. The proper fiscal policy for Australia, so the author belives, will be to lean in the early stages of war upon advances from the Commonwealth Bank, and then later, after resources have become adjusted to the new tasks, to turn to taxation and to loans. This plan the author calls "unorthodox"; but it seems to the reviewer that the designation is quite unwarranted. Direct controls are, perhaps, unorthodox and the attention given to them is a reflection of the success with which they seem to have been employed by Germany in rearmament, and of the fact that in war governmental fiat seems the quickest and most effective way to act. The government does not simply want command over resources, it wants particular types of resources; it does not wish merely to discourage private consumption, but private consumption of particular goods. Why, then, not resort to requisition and price-fixing? The difficulties which may lie along this primrose path of authoritarian war economics are not explored.

J. A. MAXWELL

WATTS, A. P. *A history of western civilization from the Reformation to the present.* Vol. II. (New York: Prentice-Hall. 1940. Pp. xvii, 1055. Trade, $5; school, $3.75.)

*Brazil, 1938: a new survey of Brazilian life, economic, financial, labour and social conditions from a general point of view.* (New York: Nat. Coffee Dept. of Brazil. 1939. Pp. 446.)

*Extracto estadistico del Peru, 1938.* (Lima: Ministerio de Hacienda y Comercio. 1939. Pp. xlvi, 644.)

*Economic review of foreign countries, 1938.* Bur. of Foreign and Domestic Commerce, econ. ser. no. 7. (Washington: Supt. Docs. 1939. Pp. iv, 258. 30c.)

*Segundo plan sexenal, 1941-1946.* (México: Partido de la Revolución Mexicana. 1939. Pp. 160.)

*Statistical abstract for the British Empire for each of the ten years, 1929-1938.* 68th no. (London: H. M. Stationery Office. 1939. Pp. xv, 234. $1.15.)

## Agriculture, Mining, Forestry, and Fisheries

*An American Exodus: A Record of Human Erosion.* By DOROTHEA LANGE and PAUL S. TAYLOR. (New York: Reynal and Hitchcock. 1939. Pp. 158.)

During the past few years considerable attention has been devoted to the westward migration from the deep South and the "dust bowl" of dispossessed farm owners, tenants, and share-croppers. Mechanization of agriculture, soil depletion, loss of markets, and other factors of distress have been called to our attention. But heretofore the picture of the resultant migration of agricultural workers has been presented in sections—it has featured special phases and certain localities. Now, in this book, Lange and Taylor have given us briefly and succinctly a broad perspective of the whole situation. Like earlier westward migrations, the contemporary one is a flight from poverty. Thus it is another "American exodus." But unlike previous similar movements, this one has led to personal disillusionment and social disintegration. The product is human erosion in a form most dangerous to the fabric of our economy.

Although designed for popular reading, this book is of great significance to all economists as a convincing picture of the vast economic upheaval in American agriculture which must necessarily change our way of life as well as our economic structure. More clearly and decisively than any scholarly treatise thus far written, this simple book of text-and-pictures elucidates the economic factors underlying, characterizing, and resulting from our current agricultural revolution.

It is not "just another picture book." The remarkable photographs by Dorothea Lange (Mrs. Taylor) are an integral part of the serious argument written by Professor Taylor, who is probably the most distinguished scholar now at work on the subject. It is the product of a profound knowledge, gained by competent technique, of the current problem of migratory agricultural labor.

As a reviewer I am enthusiastic about the entire volume excepting the last chapter, entitled "Directions." I find myself in disagreement with the basic tenet of Dr. Taylor's conclusions: "It is plain that with advances in agricultural techniques the country requires fewer farmers rather than more" (p. 153). Upon this proposition he builds his concluding argument. But this assumption that we have, or can have, too many farmers is, I believe, a misstatement of the basic economic principles involved, and,

when used as a fundamental proposition, leads to further erroneous complications in economic reasoning. We have not, necessarily, too many farmers. We have too many farm products entering the markets as the latter are now constituted. The difference is greatly important.

As an economist, Dr. Taylor knows that the number of farmers is economically unimportant as such; that the extent to which those farmers devote their attention to "cash crops" is very important. In New England today, for example, there are many farmers who are living quite comfortably but who sell and buy very little in the market. Diversified farming and local barter are proving nearly adequate for decent support, thus requiring a minimum of participation in the market. It is true that the greater proportion of our arable land is not now economically suited to diversified farming; but since most of it can be more diversified than it is, this type of farming is not necessarily doomed to extinction; it may actually increase. A curtailment of the growing financial control of agriculture might well allow such an increase to come about naturally. Obviously it cannot increase to such an extent as to "solve our farm problem." However, it points the way toward the coöperative farming of which Dr. Taylor approves. It also suggests the more extreme proposition that it may become desirable to force the great corporate farms to give way to large-scale coöperative farms. That is a tremendous problem in itself, unsuitable for discussion here.

Perhaps the more important advantage of this way of re-defining the basic problem is seen in the emphasis it places on the market. To a considerable extent the problem of agricultural labor is a direct consequence of the problem of agricultural marketing. Certainly a proposal for reforming such marketing methods is more realistic in its immediacy than the solution involved in Dr. Taylor's statement that "industrial expansion alone offers hope of permanently raising agricultural income . . ." (p. 154). Such industrial expansion, it is presumed, will absorb the surplus of landless farmers. But it would be difficult to demonstrate a high correlation between industrial expansion and agricultural income, or to forecast any direct relevance. Further, this solution of Dr. Taylor, if re-written as a solution to the problem of industrial unemployment, reveals its own fallacy: We have a large body of industrial bankrupt and unemployed. These distressed individuals must therefore permanently leave the industrial labor market. Therefore, agricultural expansion alone offers hope of permanently raising industrial income. Like Dr. Taylor's solution, this begs the question. The error implicit in both programs would have been avoided through a clear recognition of the economic principles involved. The men of both farm and factory are economic units only in so far as they affect a market.

Thus it may be that we have not too many farmers at all, but that we have, in the short run, too many cash crops, and that we require, in the

long run, a basic reorganization of the producing and marketing features of our agricultural economy.

WILLIAM S. HOPKINS

*Committee on Social Security*
*Washington, D.C.*

NEW BOOKS

ADDISON, LORD. *A policy for British agriculture.* (London: Gollancz. 1939. Pp. 303. 7s. 6d.)

The author, a former Minister of Agriculture (1930-31), is an advocate of national ownership of agricultural land and presents the advantages he sees in it for the nation and the farmer. He is a critic of present programs to aid British agriculture; but his own proposals indicate that his objections are not on the grounds of controls involved. He urges the establishment of boards invested with considerable authority and recommends that there should be "a single Ministry of Agriculture and Food Supplies, and unified direction of the whole great business" (p. 280).

He holds the view that too much land is in grass instead of in its "proper" use (p. 156). He thinks land should be used more intensively, but the discussion relating to this point suggests that factors affecting the intensity of land use have received inadequate attention. Occasional references to American agriculture indicate that some popular writings have been accepted too literally. Thus, one is told (p. 35) that agricultural practices have "turned great tracts of the United States and some parts of Canada into deserts." This book is of interest as representing one type of view with respect to agricultural policy rather than as a source of results of careful research.

O. B. JESNESS

BAILEY, C. H. *Physical tests of flour quality.* Wheat studies, vol. xvi, no. 6. (Stanford University, Calif.: Food Research Inst. 1940. Pp. 243-300. $1.25.)

BAKER, G. *The county agent.* (Chicago: Univ. of Chicago Press. 1939. Pp. xxi, 226. $2.)

This excellent monograph is on the border-line between government and economics. The agricultural county agent is an example of an administrator who is responsible to and receives his pay from a multiplicity of government units. In 1936-1937, 58 per cent of his total appropriation was from the nation, 19 from the states, including state colleges, 19.6 from the counties and 2.8 from private sources. He is also of interest to the economist as a government agent concerned with the education, stimulation and now control of the decentralized farming industry. The chapter on the negro county agent is of especial interest in showing the difficulties and the working results of such a system applied to a situation of racial castes.

O. INGRAHAM

BERNHARDT, J. *Report of the chief of the Sugar Division, 1939.* (Washington: U. S. Dept. of Agric. 1939. Pp. 19.)

Summarizes the activities of the Sugar Division with respect to the administration of the Sugar act of 1937.

BRUINI, V. C., NIELSEN, J. M. D. and DEANDREIS, R. *Relevamiento geográfico de la producción argentina de granos: área de cultivo, rendimiento y variabilidad de la cosecha de cereales y lino.* Pub. no. 45. (Buenos Aires: Comisión Nacional de Granos y Elevadores. 1939. Pp. 116.)

COLVIN, E. M., compiler. *Transportation of agricultural products in the United States, 1920-June, 1939: a selected list of references relating to the various phases of railway, motor, and water carrier transportation.* Part II. *Highway, rail, and water transportation.* Agric. econ. bibliog. no. 81. (Washington: U. S. Dept. of Agric. 1939. Pp. viii, 251-565.)

DAVIS, C. S. *The cotton kingdom in Alabama.* (Auburn, Ala.: Auburn Printing Co. 1939. Pp. 241. $2.50.)

GRAS, N. S. B. *A history of agriculture in Europe and America.* 2nd ed. (New York: Crofts. 1940. Pp. xxvii, 496. $3.50.)

This edition contains a new chapter of approximately 50 pages, covering the period 1920-40. The first edition was reviewed in the *American Economic Review,* December, 1925, pages 745-746.

GREGORY, H. E. and BARNES, K. *North Pacific fisheries, with special reference to Alaska salmon.* Stud. of the Pacific no. 3. (New York: Am. Council, Inst. of Pacific Relations. 1939. Pp. xviii, 322. $2.)

Much has been written about various phases of the important fishery resources and fishery industries of the North Pacific but this is the first book to explore the field fully. Inspired by the international problems raised by the threat of alien participation in the Pacific salmon and halibut fisheries, the authors have inquired into the history, exploitation, and value of these resources in order to establish their importance in the economy of this country. National interest in these fishery resources, expressed by priority in the field, imposition of conservation measures, and establishment of vast industrial structures, is an important consideration in our current international fishery problems and is carefully analyzed in this volume.

Particular attention is given to the Alaska salmon fishery because it has been faced very recently with alien exploitation. The halibut fishery also is discussed and brief mention is made of the fisheries of British Columbia and the Pacific Coast States. The Alaska salmon industry represents an investment in plants and equipment of more than 50 million dollars and yields products having an average annual value of about 40 million dollars. In terms of investment, employment opportunity, and food supply, it far overshadows all other fishing industries of the Pacific Coast. The future of this industry would be seriously jeopardized by the operation of foreign fishing vessels off the Alaskan Coast, intercepting the salmon runs upon which our industry is dependent. The Alaska salmon fishery is fully developed, and for 15 years our nationals have been operating under restrictive regulations designed to perpetuate the fishery at a high level. Such regulation would be nullified by unrestricted alien fishing in offshore waters; and depletion with consequent industrial failure would be inevitable.

There is a brief presentation of the natural history of the Pacific salmon and the relation thereto of fishing and processing methods and conservation measures. The business structure, production, and marketing practices in the salmon industry are ably discussed, and the managerial and financial problems including operating costs, prices, and profits are analyzed.

This survey emphasizes the importance of the North Pacific fishing industry to Alaska, the Pacific Northwest and the United States. It will be of especial interest to those charged with the management of marine fishery resources, to those directly associated with the fishing industry, and to all students of economics and international law.

SETON H. THOMPSON

HENNEFRUND, H. E., compiler. *The peanut industry: a selected list of references on the economic aspects of the industry, 1920-1939,* Agric. econ. bibliog. no. 80. (Washington: U. S. Dept. of Agric. 1939. Pp. viii, 238.)

DE HEVESY, P. *World wheat planning and economic planning in general.* (New York and London: Oxford Univ. Press. 1940. Pp. xiv, 912. $12.)

HOTCHKISS, W. E., and others. *Mechanization, employment, and output per man in bituminous-coal mining.* Vols. I and II. Rep. no. E-9. (Philadelphia: WPA Nat. Res. Project. 1939. Pp. xxii, 175; 176-436.)

HUBBARD, L. E. *The economics of soviet agriculture.* (London and New York: Macmillan. 1939. Pp. xii, 316. $4.)

This is the third book which Mr. Hubbard has published on soviet economics. He is an Englishman who knows well the Russian language[1] and whose family for generations lived in Russia; he paid several visits to Russia in the last years. The new book is devoted to Russian agriculture and presents a popular, impartial and well written study. It begins with a short description of pre-war conditions and is brought up to date (June, 1939).

Mr. Hubbard is basing his study entirely on soviet statistics and official reports and skilfully criticizes them; unfortunately, he relates hardly anything from his personal observations. He concentrates all his attention on the collectivized peasantry (*kolhozy*) and says practically nothing about the state farms.

Having shown "with as little comment as possible" the progress of agriculture under the soviet rule, Mr. Hubbard gives a remarkable summary and interesting conclusions in the last two chapters. To him, the old peasant disappeared and is replaced by "a working co-partner or share-cropper with the state in an agricultural enterprise in which the state provides the capital. . . . Economically, the peasant has exchanged comparative liberty for a planned system in which personal initiative is practically excluded. . . . Actually he surrenders to the state in one way or another at least as much, if not more, of his gross products as taxes and rent absorbed under the old regime, and he has much less voice in how he shall utilize his land and how he shall dispose of its products." And finally, "the net reward of farm labor is far inferior to that of factory labor." There is a considerable surplus of labor in the villages but the soviet passport regulations prevent entering and residing of peasants in the chief industrial districts and large towns without police authorization.

This book and particularly its two last chapters should be read by all interested in soviet economics.

PAUL HAENSEL

INNIS, H. A. *The cod fisheries: the history of an international economy.* (New Haven: Yale Univ. Press. Toronto: Ryerson Press. 1940. Pp. xv, 520. $3.50.)

JASNY, N. *Competition among grains.* (Stanford University, Calif: Food Research Inst. 1940. Pp. xiii, 606. $4.)

LOOMIS, C. P. *Social relationships and institutions in seven new rural communities.* Soc. res. rep. no. xviii. (Washington: U. S. Dept. of Agric. 1940. Pp. 82.)

McCOY, J. G. *Historic sketches of the cattle trade of the West and Southwest.* Edited by RALPH P. BIEBER. (Glendale, Calif.: Arthur H. Clark Co. 1940. Pp. 435. $6.)

[1] Still one mistake in Russian was made by Mr. Hubbard on p. 165: the plural of *sveno* is *svenya,* and not *svena* (links), and I prefer the spelling: *zveno.*

MARQUIS, R. W. *Economics of private forestry.* (New York: McGraw-Hill. 1939. Pp. viii, 219. $3.)

This little book was written by an economist, who says he is not a specialist in forestry. The first half is a statement of the elementary principles of classical economics and an attempt to apply them to the business of private forestry. The second half weighs the obstacles against the incentives to the practice of forestry, glances at the rôle of government in the solution of the forestry problem and takes a hopeful look into the future. Facts are documented, and so far as I can judge the literature on the subject has been pretty well sifted.

The author maintains that the supply of forest products and the exploitation of our forest resources depends largely on private initiative. The encouragement of private enterprise rests on the probability of profits. Hence the logical appeal, indeed the only successful appeal, to forest owners to plant trees and engage in better forestry practices is the favorable balance sheet. If private owners can be shown that good management, careful cutting, honest and complete accounting and shrewd marketing will assure a paying enterprise, plans for the conservation of our forests will succeed (if the government coöperates by providing educational assistance and fire protection and refrains from over-taxation and market competition). In short, before we can expect private owners to risk their capital in a permanent or even a fifty-year enterprise, they must be convinced that good forestry pays.

Furthermore, the author is convinced that a "sustained yield" or continuous cropping program offers more social advantages and greater assurance of profits than a "period" cutting or "liquidation" program, though good forestry management may, under certain conditions, favor the latter.

One may, however, call attention to the fact that continuous cropping enterprise large enough to support a saw mill and necessary equipment, requires a considerable investment, entails a large operating expense and probably assumes managerial ability above the average. The thousands of owners of small tracts are unable to undertake a lumbering enterprise unless it is possible to organize coöperative forestry groups in favorable locations. The author gives comparatively little attention to these small holders whose outlet of forest products may be chiefly through the farm woodlot.

Forecasting demand, prices, costs and returns twenty-five years ahead is a difficult problem and at best must be based on many uncertainties. Low prices for lumber often compel present cutting or liquidation because of heavy fixed charges. Heavy cutting drives lumber prices lower and demoralization results. Nevertheless, the author cites several instances of sustained yield or periodic (25-year) cutting enterprises which have been put in operation on large tracts in favorable locations. He notes greatly increased interest in improved forestry practices by owners who are seeking profits and by forestry experts who are giving attention to forestry accounting.

Government ownership may do much by way of demonstration of profitable practices, by coöperating with adjoining private tracts in setting up sustained yield or periodic cutting programs or by helping to stabilize the market by selling or withholding government-owned forest products.

ALEXANDER E. CANCE

RICHBERG, D. R. *The Mexican oil seizure.* (New York: Standard Oil Co. 1940. Pp. 56.)

SCHUBRING, W. *Hauptergebnisse des 1. landwirtschaftlichen Weltzensus.* (Berlin: Paul Parey. 1939. Pp. 116. RM. 16.)

Ten years ago the International Institute of Agriculture tried for the first time to organize an agricultural census throughout the world. The single censuses in the various countries, carried out individually in the years 1929-1935, were based on schedule forms corresponding to a questionnaire-type suggested by that office in Rome. The results of the census in over 40 states were published by the I.I.A. during the years 1932-1938, separately for each country or group of countries, both in French and English. In Germany's official *Review for Agricultural Policy* (147th special edition), the German representative at the I.I.A., Walther Schubring, considered it useful to write a summary of them also in the German language—it was before the present war. He presents here a recapitulation of those 41 national studies, illustrated by some 75 tabular surveys he compiled concerning the total agrarian surface, the areas classified by size-groups, the number of agricultural units and the categories of production.

Data concerning agriculture in the U.S.S.R. do not figure in this agricultural world census.

PAUL UCKER

SCOTT, E. A. *The Grange movement in Oregon, 1873-1900.* Thesis ser. no. 1. (Eugene: Univ. of Oregon. 1939. Pp. 40, mimeographed. 25c.)

SHOLLENBERGER, J. H. and CASTIGLIONI, J. M. *Comparaciones de calidad en los trigos de entre rios.* Pub. no. 46. (Buenos Aires: Comisión Nacional de Granos y Elevadores. 1939. Pp. 62.)

SMALLEY, H. R., ENGLE, R. H. and WILLETT, H. *American fertilizer practices (second survey): a report relating to the use of commercial plant food presenting information obtained by a survey among 32,000 farmers in 35 states.* (Washington: Nat. Fertilizer Assoc. 1939. Pp. 128. $1.)

TERESHTENKO, V. J. *Coöperative dairying.* Official proj. no. 65-1-97-21. (New York: Coöperative Project and WPA for City of New York. 1940. Pp. 212.)

TIMOSHENKO, V. P. and WORKING, H. *World wheat survey and outlook, January, 1940.* Wheat studies, vol. xiv, no. 5. (Stanford University, Calif.: Food Research Inst. 1940. Pp. 205-242. 75c.)

THOMAS, P. J. and SASTRY, N. S. *Indian agricultural statistics: an introductory study.* Madras Univ. econ. ser. no. 3. (Madras: Univ. of Madras. 1939. Pp. 144.)

*Agrarian China: selected source materials from Chinese authors.* Compiled and translated by the Research Staff of the Secretariat, Inst. of Pacific Relations. (Chicago: Univ. of Chicago Press. 1939. Pp. xviii, 258. $2.50.)

*Comisión Nacional de Granos y Elevadores: memoria correspondiente al año 1938.* (Buenos Aires: Comisión Nacional de Granos y Elevadores. 1939. Pp. 431.)

*Farmers' retail petroleum associations.* Circ. C-113. (Washington: Farm Credit Admin., Coöp. Res. and Service. 1939. Pp. 20. 5c.)

*The Jewish Agricultural Society, Inc.: annual report, 1939.* (New York: Jewish Agric. Soc. 1939. Pp. 35.)

*Present status of the Mexican oil "expropriations," 1940.* (New York: Standard Oil Co. 1940. Pp. 79.)

*Raw materials.* Royal Inst. of Internat. Affairs paper no. 18a. (London: Oxford Univ. Press. 1939. Pp. vii, 83. 2s. 6d.)

*Raw materials and foodstuffs: production by countries, 1935 and 1938.* (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 75. 60c.)

This is a book of reference. Its purpose is to show the production of the most important raw materials and foodstuffs country by country; the data refer to 128 products and 95 countries, in 1935 and 1938. The year 1935 has been selected mainly because the trade statistics relating to it were more complete than those for either of the two later years.

J. C. Rocca

*Statistics relative to the dairy industry in New York State, 1936-1938.* Bull. 324. (Albany: New York State Dept. of Agric. and Markets. 1939. Pp. 376.)

*United States acreage and production map, together with a summary of wheat crops and exports during the Great War, 1914-1918.* (Winnipeg: Sanford Evans Stat. Serv. 1940. $1.50.)

## Manufacturing Industries

*Price Research in the Steel and Petroleum Industries.* Price stud. no. 3. (New York: Nat. Bur. of Econ. Research. 1939. Pp. xiii, 170. $2.00.)

The special committees set up by the Conference on Price Research of the National Bureau of Economic Research have now prepared price research programs for four industries: bituminous coal,[1] textiles, steel and petroleum. The last two reports were prepared under the direction of Samuel S. Stratton and Myron W. Watkins, respectively.

As a background for the suggested programs of price research, the economic and technical characteristics of the steel and petroleum industries are briefly surveyed. One observation concerning crude petroleum seems questionable. It is stated that certain factors "have thus far prevented *any great degree of concentration of control through ownership* and have given to oil production a continuously and highly competitive character" (p. 85, my italics). Then it is pointed out that 20 integrated concerns produce half the output and 15,000 to 18,000 independents produce the remaining half. Certainly when 1/10th of 1 per cent of the companies produce half the output, control is concentrated even though competitive elements may still make themselves felt.

The available price data for steel products appear to be less valuable than those for petroleum products because of the different specifications set up by individual customers. "Relatively little of the steel actually sold may be of the kind described by the base price" (p. 26). This difference in adequacy of price data together with the larger variety of products explains the greater need for the collection of new data for steel products.

The steel report suggests a program of research which will throw the spotlight on a myriad of detail as well as upon certain broad problems. The compilation of information about tonnage and value of individual products

[1] Reviewed in *Am. Econ. Rev.*, March, 1939, p. 142.

shipped from each plant by counties, cities and states, as well as data concerning basing-point price, freight absorption, extras, deductions, variations in engineering standards, etc., illustrate the fine breakdown which is desired. The broader studies are those dealing with the effect of the basing-point price practice upon regional economic development and the elasticity of demand for iron and steel products. Between these two extremes numbers of projects are suggested dealing with such problems as historical price behavior, price control through vertical integration, influence of freight-rate structure on steel pricing, flow of capital, and the influence of the continuous rolling mill and by-product coke oven on certain developments in the industry.

The steel industry should be treated as "a multiple not a single industry. Its products may be grouped according to the economic and technological conditions of production, the economic mobility of the product, the concentration—geographic or corporate—of buying power, the availability of substitutes, and the degree of overlapping, on the part of integrated firms, of stages of manufacture or processing" (p. 32). That such an approach would yield more fruitful results than an undifferentiated analysis of the steel industry is clear. But the cost of obtaining the necessary data and the insuperable difficulties which arise in connection with cost allocation for joint and by-products makes it certain that progress along these lines will be very slow and tortuous at best.

The authors of the petroleum report were much more modest in their suggested program for price research. As contrasted with the wealth of detail to be gathered and studied under the steel program, they are concerned primarily with three broad objectives—namely, the study of price-determining forces, price relationships, and the functions performed by prices in the industry. Study of the proration programs is also suggested.

The student of prices will find here a wide variety of projects to engage his efforts as well as excellent thumbnail sketches of the structure and characteristics of the two industries. The value of these reports would have been increased, however, by the inclusion of comprehensive bibliographies covering the more important studies of prices and price policies made for these industries in the past.

The completion of the programs suggested for these industries as well as those for textiles and bituminous coal will give an excellent cross-section of an important part of the economic system. Such empirical studies (together with those in other fields—aluminum, leather, milk, automobile, non-ferrous metals, etc.), when related to theoretical musings concerning imperfect competition, should serve as the foundation for a comprehensive synthesis and reformulation of price theory in a dynamic state.

JULES BACKMAN

*New York University*

NEW BOOKS

BRITTON, B. S. *The history of paper merchandising in New York City.* (Chicago: Howard Pub. Co. 1939. Pp. 80. $1.)

LEMERT, B. F. *The tobacco manufacturing industry in North Carolina.* (Raleigh: Nat. Youth Admin. of North Carolina. 1939. Pp. 107, mimeographed.)

MITCHELL, W. E., MCDONALD, F. H., MCINTOSH, H. T. and JOB, R. C. *Industrialization as a means to southern progress.* Circ. no. 3. (Atlanta: Georgia School of Technology. 1940. 10c.)

PERAZICH, G. and FIELD, P. M. *Industrial research and changing technology.* Rep. no. M-4. (Philadelphia: WPA, Nat. Research Project. 1940. Pp. xii, 81.)

PERAZICH, G., WOAL, S. T. and SCHIMMEL, H. *Mechanization in the cement industry.* Rep. no. M-3. (Philadelphia: WPA, Nat. Research Project. 1939. Pp. xv, 113.)

STEVENSON, L. T. *The background and economics of American papermaking.* (New York: Harper. 1940. Pp. xii, 249. $3.)

VITO, F. *I sindacati industriali: consorzi e gruppi.* 3rd ed. (Milan: Giuffrè. 1939. Pp. vii, 195. L. 25.)

This book is the third completely revised edition of Professor Vito's well known monograph on industrial combination. While in the more voluminous first and second editions (1930 and 1932) considerable space was devoted to description and to a discussion of questions of policy, in the present edition the author is almost exclusively concerned with the theory of industrial combination and with its application within the framework of the Italian corporate state. The monograph includes an able description of the economic and technical factors leading toward combination, a comprehensive theoretical analysis of the functions of combinations in the modern economy and a discussion of the control of combinations of industrial enterprises in the Italian corporate system.

Professor Vito believes that in the modern economy industrial combinations have definitely come to stay, for they perform functions which are both necessary and useful. In types of enterprises in which the proportion of fixed costs is large, cyclical contraction in demand and falling prices are likely to induce entrepreneurs to engage in ruinous, cut-throat competition which is ultimately bound to result in an intensification of the general distress and in heavy losses of invested capital. The way out, Professor Vito thinks, is combination, a compromise between the rigidities of modern large-scale production and the risks of sharp price fluctuation. The danger of higher prices for the consumer is to be prevented through supervision insuring the maintenance of prices equal to the costs of the marginal firm in the combination. The activities of this firm, moreover, must be carefully controlled by appropriate public or semi-public organs (in Italy by the fascist "corporations") with a view to increasing its efficiency and reducing its costs and thus the price of the product to the consuming public. Even though Professor Vito himself is aware of the difficulties inherent in such a program of control—the discovery of the marginal firm and of its costs, the necessity of constant vigilance over the price policies of the cartellized enterprises, the danger of continued operation of inefficient firms—he remains convinced of its essential soundness and practicability, a conviction which, however, not all readers of his scholarly and suggestive monograph may find it possible to share.

WILLIAM G. WELK

*Changes in retail prices of electricity, 1923-38.* U. S. Bur. of Labor Stat. bull. no. 664. (Washington: Supt. Docs. 1939. Pp. viii, 79. 15c.)

*The dynamics of automobile demand.* (New York: General Motors Corp. 1939. Pp. 139. Gratis.)

*Survey of American listed corporations: reported information on selected manufacturing groups.* Vol. I. (New York: Securities and Exchange Commission. 1940. Pp. 291.)

## Transportation and Communication

### NEW BOOKS

COLVIN, E. M., compiler. *Transportation of agricultural products in the United States, 1920–June, 1939: a selected list of references relating to the various phases of railway, motor, and water carrier transportation.* Part 1. *General transportation and transportation of agricultural products.* Agric. econ. bibliog. no. 81. (Washington: U. S. Dept. of Agric. 1939. Pp. x, 250.)

HAWLEY, L. T. *Alabama's balance of rail and water traffic, 1932-1937.* Multilithed ser. no. 2. (University: Univ. of Alabama Bur. of Bus. Res. 1939. Pp. 130.)

KISTLER, T. M. *The rise of railroads in the Connecticut River Valley.* Smith College stud. in hist., vol. xxiii, nos. 1-4. (Northampton: Smith College, Dept. of History. 1938. Pp. 289.)

MENEFEE, F. N. *The St. Lawrence seaway.* (Ann Arbor, Mich.: Edwards Bros. 1940. Pp. 325. $2.50.)

PARMELEE, J. H. *A review of railway operations in 1939.* Reprinted from *Railway Age* for Jan. 6, 1940; figures revised to March 25, 1940. (Washington: Bur. of Railway Econ. 1940. Pp. 38.)

SPERO, H. *Reconstruction Finance Corporation loans to the railroads, 1932-1937.* (Cambridge: Bankers Pub. Co. 1939. Pp. 185. $3.50.)

SUMMERS, H. B. and SUMMERS, R. E., compilers. *The railroads: government ownership in practice.* (New York: Wilson. 1940. Pp. 144. 75c.)

*American shipping needs: committee report.* (Washington: Chamber of Commerce of U. S. 1940. Pp. 16.)

*Fifty-second annual report on statistics of railways in United States, for year ended December 31, 1938, including also selected data relating to other common carriers (except motor carriers) subject to the Interstate Commerce act for the year 1938.* (Washington: Interstate Commerce Comm. 1939. Pp. viii, S-225, 279. $1.50.)

*Interstate Commerce Commission: 53rd annual report.* (Washington: Supt. Docs. 1939. Pp. iii, 200. 75c.)

*Investigation of railroads, holding companies, and affiliated companies.* Hearings, part 22. *The Wabash Railway Company, finances, 1930-31, interline account audits, receivership and reorganizations. Missouri Pacific R. R. Co. reorganization.* (Washington: Supt. Docs. 1939. Pp. xvi, 9553-9964.)

*Investigation of railroads, holding companies, and affiliated companies.* Report, parts 1 (before 1920) and 2 (1920-24). (Washington: Supt. Docs. 1940. Pp. xxxviii, 514; xlviii, 515-1178.)

*An outline of activities of the Association of American Railroads for the year 1939.* (Washington: Assoc. of Am. Railroads. Pp. 72.)

*Railroads of today.* Smithsonian Inst. radio program, vol. i, no. 16. (New York: Columbia Univ. Press. 1940. Pp. 22. 10c.)

*Trends in highway finance.* Michigan pamph. no. 5. (Ann Arbor: Univ. of Michigan Bur. of Govt. 1940. Pp. 20.)

## Trade, Commerce, and Commercial Crises

### NEW BOOKS

ELLIS, L. E. *Reciprocity, 1911: a study in Canadian-American relations.* Prepared under the direction of the Carnegie Endowment for Internat. Peace. (New Haven: Yale Univ. Press. 1939. Pp. x, 207. $2.50.)

This is the thirteenth volume in the Canadian-American Relations series. In the foreword, Professor Shotwell aptly characterizes this history of the episode of 1911 as a story of dramatic interest in itself presented, not in the abstract terms of political argument, but as a vital human document.

It is not so much a study of the reciprocity proposal itself and its economic significance as of the forces and conditions on both sides of the border accounting for its initiation, attending its progress through Congress, and compassing its defeat in Canada. The discontent of the western states and provinces, the precarious positions of President Taft and Premier Laurier and their parties, the protected interests fearful of any breach in the tariff walls, the American newspapers bent upon duty-free paper, the skillful manipulation of public sentiment by propaganda and political pressures—all these and other influences are seen in their respective rôles.

The book is at once a significant addition to the literature of propaganda methods and a scholarly reëxamination of a crucial period in the tariff relations between Canada and the United States, based upon the exploration of a wealth of source material, some of which has only recently become available.

The most obvious beneficiaries of the controversy were the American newspapers who got free newsprint. The larger meaning of the episode may be found in its accentuation of political and tariff trends in the two countries. It also marked an intermediate stage in reciprocity procedure between the treaty of 1854 and the trade agreements of 1936 and 1938.

PAUL S. PEIRCE

GEISER, A. *Die Kompensation als Mittel der Aussenhandelspolitik unter besonderer Berücksichtigung der Schweiz.* (Zürich: Schulthess. 1939. Pp. 109.)

The author gives us a thorough picture of the many obstacles which since 1931 have handicapped free imports and exports, especially in European countries. Besides the defensive system of quantitative contingents and the aggressive system of monetary clearing, Geiser devotes two-thirds of his thesis to a discussion of the question of *compensatory exchange of goods* or what he calls the very basis of every commercial policy, *i.e.,* a system of public regulation of international trade making use of a country's exports for its imports and vice versa.

As for Switzerland in particular, her specially created compensation offices for coal and combustibles, for cereals, fodder and malt, for sugar and industrial oils seem to have worked well during the depression. However, since the federal government was compelled to resort to expensive means because of exchange control abroad, this intervention should be moderated as soon as general commercial relations become freer.

PAUL UCKER

JACQUELIN, D. G. *Swiss-American economic relations.* Geneva stud., vol. x, nos. 4-5. (Geneva: Geneva Research Centre. 1939. Pp. xx, 295. 80c.)

The plan and purpose of this book are well set forth in the author's preface. She aims to examine in detail the economic relations between the United States and Switzerland, stressing the Swiss rather than the American side of the picture, and, second, to use the Swiss-American Trade Agreement as a case study of the possibilities of lowering existing barriers to international trade at a period when the general tendency is in the opposite direction.

The principal physical and social aspects of the Swiss economy are first discussed to give the reader a background. Part 1 presents a historical survey of Swiss-American economic relations since 1848. Part 2 consists of an analysis of the economic structure of Switzerland and an evaluation of the importance of the United States as a market for Swiss products. Part 3 deals with recent commercial relationships and in particular with the Trade Agreement of 1936 and its influence on reciprocal trade. Part 4 is a study of other items in the balance of payments, especially the movement of capital and the tourist trade. Then follow a brief summary; an appendix consisting of the texts of the conventions of 1847 and 1850 and of the Trade Agreement of 1936; and 20 pages of classified bibliography.

Mrs. Jacquelin, an American, originally prepared this work as a doctor's dissertation for the Graduate Institute of International Studies. Her first thought was merely to make a case study of the Hull reciprocal trade program. But the scope of her investigations was so broadened as to produce, in the words of Dr. W. E. Rappard, "the best analysis, based on original sources, of Switzerland's economic evolution during the last century that, to my knowledge, exists in English." Its thorough documentation shows extensive research. The materials drawn from a wide range of sources and touching all phases of agricultural, industrial, financial, and trade life and politics are effectively organized. The style is clear and interesting, and the tone judicial. The treatment of the trade agreement, while sympathetic, is realistic and well-balanced.

PAUL S. PEIRCE

LIN L. *American imports from China prior to and immediately following the Sino-Japanese War, 1932-38.* China econ. information bull. no. 1. (New York: Trans-Pacific News Serv. 1940. Pp. 9.)

LONG, O. *Le contingentement en France: ses incidences économiques.* (Paris: Lib. Technique et Econ. 1938. Pp. 182.)

The author begins with a brief description of the quota technique as employed in international commercial transactions and then enters into an extensive historical treatment of the subject. The title would indicate that the document deals only with French quotas; however, the development of his thesis leads as well into a consideration of the quotas imposed by foreign countries.

The introductory sections are utilized as a background for the two main analytical portions of the book, the first of which treats of the position of export and import quotas in the national market. Attention is called to the difficulties attendant upon administration, particularly in the apportionment of the available market. Then the economic consequences are treated in an analysis of the effect of quotas upon the entire price structure, and the assumed advantages of controlled operation are weighed against the costs which must be met. It is pointed out that the removal of certain rigidities, while now appearing desirable, may involve only temporary advantages which will be followed

by greater restrictions than those which the original action sought to overcome.

The second main portion of the work turns to a descriptive study of the present international commercial relationships involving the use of quotas. Some space is devoted to the direction that the movement seems to be taking.

In his conclusions M. Long states that the quota system is not so bad as sometimes represented but paradoxically admits that it offers no permanent solution. He agrees with many other writers in the field that international trade restrictions lead eventually to autarchy. In going a step further he thinks that an extension of the quota system will be an important force in the breakdown of our contemporary economic structure and that international trade barriers must be followed by domestic barriers that will eventually result in a complete disappearance of freedom in individual economic action with the substitution of state control. No course of action is recommended and the concluding sentence, "A chacun maintenant de choisir sa solution," furnishes an indefinite close to a document that is little more than a pessimistic warning.

ARTHUR ROWLAND BURNSTAN

LÖSCH, A. *Die räumliche Ordnung der Wirtschaft: eine Untersuchung über Standort, Wirtschaftsgebiete und internationalen Handel.* (Jena: Fischer. 1940. Pp. viii, 348. RM. 12.)

MANOÏLESCO, M. *Die theoretische Problematik des Aussenhandels: Synthese; Beweisführung; Polemik.* (Kiel: Inst. für Weltwirtschaft an der Universität Kiel. 1940. Pp. 82.)

SAYRE, F. B. *The protection of American export trade: being the course of lectures delivered at Westminster College, Fulton, Missouri, 1939.* (Chicago: Univ. of Chicago Press. 1940. Pp. xi, 93. $1.50.)
Trade Agreement acts.

WITHEROW, G. A. *Foreign trade of the United States, calendar year 1938.* Part II. *Trade by regions and countries.* Trade promotion ser. no. 198. (Washington: Supt. Docs. 1940. Pp. xiv, 155.)

*American-Japanese trade and treaty abrogation: an economic analysis of the possible effects of the abrogation of the American-Japanese Treaty of 1911 upon American-Japanese trade.* (San Francisco: Japanese Chamber of Commerce. 1939. Pp. 33.)

*Balances of payments, 1938.* (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 148. $1.25.)

*Foreign trade trends in items affected by trade agreements.* (Washington: Chamber of Commerce of U. S. 1940. Pp. 30.)

*International trade statistics, 1938.* (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 345. $3.)

*Trade barriers among the states.* Proc. of National Conference on Interstate Trade Barriers, April 5-7, 1939, Chicago, Ill. (Chicago: Council of State Govts. 1939. Pp. 127.)

## Accounting, Business Methods, Investments and the Exchanges

*The History of an Advertising Agency: N. W. Ayer & Son at Work, 1869-1939.* By RALPH M. HOWER. Harvard stud. in bus. hist., no. 5. (Cambridge: Harvard Univ. Press. 1939. Pp. xxxv, 652. $4.00.)

This history has much wider scope and greater significance than is indicated by its title. In essence it is almost a complete survey of the evolution of national advertising in the United States. As such, it is an almost indispensable background for a just appraisal of the economic and social effects of advertising; probably it is more valuable for this purpose than any cross-section analysis could be.

Today the advertising agency is the focal point of advertising activities. It has reached this position, however, only after many transitional stages, practically all of which have been experienced in the life of the agency of N. W. Ayer & Son, founded in 1869 by Francis Wayland Ayer and directed by him until his death in 1923. The Ayer agency may even claim to be the oldest in the country, for in 1877 it took over the business founded by the pioneer agent, Volney B. Palmer, in 1841. The agency has consistently been ranked among the three or four leaders both in quantity and in quality of advertising, and still is.

The record of the company represents a superb individual achievement, one that amply warranted the writing of the story as a biography; and this seems to have been the original plan. But although the character and work of F. Wayland Ayer still loom large in the book, it has been written primarily as the history of his institution.

Naturally the progress of this company, as of most other companies and individuals, has not been without its hard struggles and its regrettable episodes. "Official" biographers and historians are prone to exaggerate the dramatic victories and to suppress the less creditable incidents; whereas the opposite policy is usually followed by muck-rakers and sensation-mongers. The Ayer agency deserves credit for its courage in turning over its records and other material to an outsider who had little previous knowledge of advertising or predisposition to favor it, and in giving him so free a hand in his presentation.

Fortunately the author proved himself a scholar and a scientist. He seems to have resisted the temptation to over-dramatize his story or to indulge in championing or crusading. Undeniably he could have produced a more colorful narrative by either of these policies. As he says in his admirable preface:

> It was not the purpose of this book either to attack or to defend the advertising agency as an institution. If it had been, my task would have been simpler; for most of us write more easily and effectively when we are hot in praise or blame.

This effort to observe strict neutrality undoubtedly had the strong support of the editor, whose preface may be taken as an ideal summary of the business historian's creed.

The book is divided into two parts. Part 1 contains a chronological narrative of the agency's history. It corrects some common misconceptions re-

garding the original status of the advertising agent. Ayer, like Palmer and other predecessors, appears to have begun as an agent in the legal sense, taking orders for space in periodicals and receiving commissions. But soon his business became more complex. Part of his income came from buying space at wholesale and selling at retail, part from selling type and ink to publishers in exchange for space, part from publications he owned or controlled. In 1875, Ayer followed the lead of George P. Rowell in announcing himself as the agent of the advertiser, not the publisher. Unlike Rowell, Ayer adopted the method of remuneration that this relationship logically implied—namely, that of charging the client the net cost of space plus a commission for his services.

Subsequent history shows the gradual widening of agency services to include marketing research, preparation of copy, planning and merchandising campaigns and various other activities. Part 2, which constitutes about two-thirds of the entire book, gives a detailed analysis of the operations of the Ayer agency. While its chief value is to the student of advertising, it should be useful to any business-man or social scientist. The carefully compiled tables of costs, salaries, profits, kinds of advertising, etc., at various periods, are especially illuminating. They would have been even more valuable if brought down to 1939; but one could scarcely expect the agency to reveal current figures.

The author's interpretations and conclusions, of course, will not be accepted by all readers. Few will deny the value of his facts or his skill in presenting them.

G. B. Hotchkiss

*New York University*

## NEW BOOKS

Alford, L. P. *Principles of industrial management for engineers.* (New York: Ronald. 1940. Pp. xxii, 531. $4.50.)

Chapters on mechanization, ownership of industry, organization and control of industry, purchasing control, storeskeeping, production control, job standards, cost accounting, wage payment plans, employee relations, and industrial safety.

Bartizal, J. R. *Budget principles and procedure.* (New York: Prentice-Hall. Pp. 237. Trade, $3.65; school, $2.75.)

Batchelor, B., editor. *The new outlook in business.* (New York: Harper. 1940. Pp. xiii, 323. $3.)

A collection of 21 papers by industrialists and experts in various fields of industry.

Beckman, R. O. *How to train supervisors: manual and outlines for determinate discussion.* (New York: Harper. 1940. Pp. xii, 305. $3.)

Blachly, F. F. and Oatman, M. E. *Federal regulatory action and control.* (Washington: Brookings. 1940. Pp. xviii, 356. $3.)

Bogen, J. I., and others. *Problems and responsibilities of the finance officer.*

Finan. manag. ser. no. 56. (New York: Am. Management Assoc. 1939. Pp. 32. 50c.)

BREWER, J. M., and others. *Introductory business training.* New ed. (Boston: Ginn. 1940. Pp. 531. $1.60.)

BRIGGS, R. P., editor. *Proceedings of the fifteenth annual Michigan accounting conference, Ann Arbor, November 10, 1939.* Michigan bus. papers no. 7. (Ann Arbor: Univ. of Michigan. 1940. Pp. 56.)

BYRNES, T. W. and BAKER, K. L. *Do you want to become an accountant?* (New York: Stokes. Pp. 205. $1.50.)

CHATTERS, C. H. and TENNER, I. *Municipal and governmental accounting.* (New York: Prentice-Hall. 1940. Pp. xviii, 794. Trade, $6; school, $4.50.)

DONALD, W. J., and others. *Industrial marketing: cost control—product promotion—application engineering.* Marketing ser. no. 36. (New York: Am. Management Assoc. 1939. Pp. 40.)

EDWARDS, A. L. *Product standards and labeling for consumers.* (New York: Ronald. 1940. Pp. viii, 134. $2.50.)

EISNER, M., and others. *How government regulates business: an explanation of the principal federal and state laws which regulate business.* (New York: Dynamic America Press. 1939. Pp. xiv, 120.)

Series of radio addresses on the Federal Trade Commission act, Food, Drug and Cosmetic act, price-fixing laws, Federal Wage and Hour law, anti-trust law, taxation of business.

FIELD, K. *Introduction to investment analysis.* (New York: Ronald. 1940. Pp. xii. 340. $3.50.)

FREY, A. W. *Manufacturers' product, package and price policies: modern merchandise management.* (New York: Ronald. 1940. Pp. xii, 429. $4.50.)

The title of this book is accurately descriptive of its content. Volumes have been written on salesmanship, sales management, advertising and other aspects of manufacturers' marketing policies, and the merchandising aspects of business have been frequently treated from the retailer's point of view; but the very important merchandising problems of manufacturers have received inadequate attention in marketing literature. Many individual businesses, however, have done excellent jobs of product planning as is reflected in the many examples which Professor Frey has drawn from actual business practices.

Professor Frey's timely book, therefore, is a welcome addition to the literature on manufacturers' marketing policies. Preface remarks indicate that the book is directed toward business executives, but it is written in such a careful well-organized style as to make it suitable for classroom use.

GERALD B. TALLMAN

GILMAN, S. *Accounting concepts of profit.* (New York: Ronald. 1939. Pp. xv, 635. $5.)

The increasing recognition given to profit accounting is overdue. Hence a reëxamination of accounting concepts from the profit viewpoint is to be welcomed. That Mr. Gilman in pioneering a new area still leaves work for others is no criticism when a start is sorely needed. The first third of the book, in particular, is a serious study of the concepts and conventions behind our accounting sales. Although there will be those who will make the charge of "theoretical," it must be recognized that an examination to find the thread of logic and consistency in apparently inconsistent rules is essential to sound future development.

It is to be regretted that the type of analysis with which the treatise starts is not continued in the discussion of specific problems. The chapters dealing with these provide summaries of divergent opinions and some historical background but are not analyzed in terms of fundamental concepts. Nor is the possibility of differing approaches to meet the differing needs of the various equities adequately discussed.

The author by his treatment recognizes the importance of underlying concepts and conventions in accounting. "The methods of estimating periodic accounting profit have been formalized by a variety of conventions, doctrines, rules and practices based in part upon logic and in part upon expediency." The profit figure which is developed in any set of accounts is the child of the concepts and conventions followed. What are the financial, business, investment and social implications to be drawn from business net income (accounting profit)? This is the important question still unanswered by this book.

W. P. Fiske

Hall, F. P. *Government and business.* 2nd ed. (New York: McGraw-Hill. 1939. Pp. xii, 455. $4.)

This revision of an earlier work with the same title constitutes an improvement in several respects. It is more readable, due to the abandonment of the outline form which characterized the first edition; it is longer (455 pages as compared with 275); and the documentation is much improved.

In the first part of the book the author discusses the various theories with regard to the functions of the state; the constitutional limitations upon the control of business; the commerce clause of the Constitution; methods of control; and types of regulation. In the second part, comprising four-fifths of the book, he deals with the regulation of railroads, buses and trucks, aviation, public utilities, banks, insurance companies, coal companies, ordinary business enterprises, packers, securities, foods and drugs; with public ownership and operation, federal, state, and municipal; and with certain miscellaneous topics, such as administration of bankruptcy and government aid to business.

The book will prove helpful to those who are giving general courses on the relation of government to business. The treatment is sane, and usually accurate.

A defect of the work is the extremely haphazard manner in which the chapter references are presented. In arranging these references there is not the slightest evidence of order or system. The books are not arranged in alphabetical order nor in chronological order; the date of publication is not given; and books by the same author are not even grouped together. On page 255 in the chapter references (as distinct from the footnote references) the *Annual Report of the Federal Trade Commission* appears 9 times. Why cannot these nine references be brought together as one? And why on pages 398-399 is it thought desirable to list the United States Code as 11 separate references and Postal Laws and Regulations as 6, making an apparent total of 29 references for this chapter when in fact there are only 14?

Eliot Jones

Harwood, E. C. and Fowle, H. *How to make your budget balance.* (Cambridge: Am. Inst. for Econ. Research. 1940. Pp. 143. $1.)

Relates to personal budgets.

HECKERT, J. B. *The analysis and control of distribution costs for sales executives and accountants.* (New York: Ronald. 1940. Pp. xvii, 420. $5.)

HERRICK, A. *You don't have to be rich.* (New York: Appleton-Century. 1940. Pp. 224. $1.75.)

HOTCHKISS, G. B. *An outline of advertising: its philosophy, science, art, and strategy.* Rev. ed. (New York: Macmillan. 1940. Pp. xxvii, 631. $4.)

KESTER, R. B. *Principles of accounting.* 4th ed. (New York: Ronald. 1939. Pp. xx, 703. $4.)

Through three earlier editions Kester's *Accounting* has been a standard text with fully-earned wide acceptance. It now appears under a new title and in a new format with a larger page. Though the same approach has been continued, chapters have been combined and new material has been added to give a quite new appearance. In particular, a long illustrative bookkeeping example, increased attention to the corporation and a new discussion of simple consolidation have been included. The book is in every sense a thorough revision by a teacher of long experience who shows an ability to meet new conditions.

W. P. FISKE

KIMBALL, D. S. and KIMBALL, D. S., JR. *Principles of industrial organization.* 5th ed. (New York: McGraw-Hill. 1939. Pp. xix, 478. $4.)

The modest revision of this well known text is intended to incorporate brief discussions of recent legislation and managerial developments and to revise its statistical data. The new material is typically added as topical insertions so as to preserve the earlier pattern of the book. For the reason that it is more up to date, the revision will be regarded generally as an improvement, though the authors mar their work with cavalier and debatable generalizations regarding the effects of recent legislation.

R. D. C.

KRANE, A. *Financing your business, or, How to raise capital.* (Jacksonville, Fla.: Seminole Pub. Co. 1939. Pp. 223. $15.)

LASSER, J. K., and others. *New problems of sales management.* Marketing ser. no. 35. (New York: Am. Management Assoc. 1939. Pp. 32. 50c.)

LESTER, H. M. *Retail training in principle and practice.* (New York: Harper. 1940. Pp. 188. $2.50.)

MCGRAW, J. H., JR., and others. *Public and industrial relations in production.* Production ser. no. 113. (New York: Am. Management Assoc. 1939. Pp. 40. 75c.)

MEAD, E. S. and GRODINSKY, J. *The ebb and flow of investment values.* (New York: Appleton-Century. 1939. Pp. x, 513. $5.)

MONCHOW, H. C. *Seventy years of real estate subdividing in the region of Chicago.* Stud. in the soc. sci. no. 3. (Evanston: Northwestern Univ. Grad. School. 1939. Pp. viii, 200. $2.25.)

A study of the extent of land subdividing in the Chicago metropolitan area, this represents an attempt to discover the relationships existing since 1871 between the rate of subdividing as measured by the number of lots in recorded plats and other economic phenomena of the region and of the United States.

After a presentation of the basic subdivision data, an examination is made of their behavior as compared with population growth, with various measures

of general business conditions, and with specific measures of the real estate market such as movements of land values, the rate of building construction, and rent levels. Attention is given to the relationship between the location of manufacturing establishments and the extension of public transportation facilities in and to the different localities comprising the metropolitan area and their effect on subdividing activity, and to "institutions affecting the sale and purchase of subdivision lots." The final chapter explores some of the means advocated or used by public authority in influencing or controlling subdivision activity.

The study represents another contribution to a line of studies the effect of which is to illuminate and in some degree to measure the effects of subdivision practices on community development, the extent to which speculation as the principal incentive to subdivision has resulted in excess of land subdivided for urban use, and the costs, both private and public, which have been involved in this activity.

One of the major contributions of this study is presented as "a by-product." This by-product is summarized in the statement (p. 39), "The results show a considerable degree of uniformity, sufficient at least to warrant the positing of a ratio of twenty-two residential lots on the average per one hundred of the population."

The discussion of the control of subdividing closes with the rather unsatisfying recommendation of centralization of control in a single agency. The character of this agency is not specified. The author discusses public ownership of land in urban areas, but appears not to approve this device on account of practical difficulties rather than theoretical ones. The recommendation is also made that land should be placed in the category and under many of the controls commonly exercised for public utilities. The method of attaining this end is not discussed.

ERNEST M. FISHER

NIXON, H. K., and others. *Sales costs and price policy.* Marketing ser. no. 37. (New York: Am. Management Assoc. 1939. Pp. 32. 75c.)

RAUTENSTRAUCH, W. *Industrial surveys and reports.* (New York: Wiley. 1940. Pp. x, 189. $2.50.)

RIEGEL, J. W. *Salary determination: common policies and selected practices in forty American corporations.* Rep. no. 2. (Ann Arbor: Univ. of Michigan Bur. of Industrial Rel. 1940. Pp. 278. $3.50.)

A valuable pioneer study of the way business concerns determine salary levels, this covers "routine workers on salary" and "managers and technicians paid less than $10,000 per year." The volume is primarily a report of the way the forty companies studied determine salaries.

Some of the early chapters of the book deal with such topics as salary policy, salary survey, salary for key and uncommon positions. Much attention is given to the methods by which the companies carry on salary surveys and determine the standard salaries for the key positions. After key positions have been graded and a salary schedule framed for them, determination for salaries of uncommon positions can go forward on the basis of comparison with the key positions. The later chapters of the book deal with such items as compensating the individual employee, incentive plans for salaried workers, valuation of managerial and technical services. The last chapter contains many helpful suggestions on the actual administration of a salary plan.

It is advised that a regular procedure be set up to review the salary schedule at frequent intervals. It is suggested that the cost of continuing control of salary schedules might run from $3 to $5 per employee per year. "Judicious salary administration can promote the proficiency, coöperation, ambition, and satisfaction of these millions of employees, technicians and managers. It therefore is advantageous not only to them, but to employers and the community as well."

In general, the discussion is confined to the factual presentation of what was discovered. Occasionally comments are made that go beyond the evidence presented. On page 32, we are told that "the increase in salary necessary (to move a salaried worker) may be 20 per cent or even more." The next paragraph implies that a one per cent difference may be sufficient to bring adjustment in the commodity or securities market.

One wonders, however, whether the cases are strictly parallel. Is it a particular worker who is wanted or just any worker? A discussion in the first part of the book implied that wages should be held very close to the prevailing rate. If one wants a particular worker he might have to pay a substantial increase above the customary rate. But might not that also be true if one wanted a particular bushel of wheat, especially if it happened to be located in central Kansas or Australia?

In general the book is strongest in the parts that give the facts resulting from the survey and in making practical suggestions based upon the facts. Many tantalizing suggestions of a theoretical nature are dropped, which should be explored. Some of these theoretical issues, if explained, would doubtless throw much light on the fundamental causes of salary differences.

HAROLD F. CLARK

SAXE, E. *Estate accounting.* (New York: Author. 1939. Pp. 256. $3.50.)

SELBY, P. O. *Index to the teaching of general business, 1929-1938.* (Kirksville, Mo.: Research Press. 1939. Pp. 48. 53c.)

WATKINS, M. W., and others. *Public regulation of competitive practices in business enterprise.* 3rd ed. (New York: Nat. Industrial Conference Board. 1940. Pp. xxi, 355.)

WHEELER, B. L., and others. *Determination of depreciation and obsolescence policy.* Finan. manag. ser. no. 57. (New York: Am. Management Assoc. 1939. Pp. 28. 75c.)

*American Association of Collegiate Schools of Business: proceedings of the 21st annual meeting, College of Commerce, University of California, and the Graduate School of Business, Stanford University, April 20, 21 and 22, 1939.* (Fayetteville, Ark.: Am. Assoc. of Collegiate Schools of Bus. 1939. Pp. 215. $1.25.)

*American Institute of Accountants: 1939 yearbook.* (New York: Am. Inst. of Accountants. 1940. Pp. vi, 471.)

*The investment of the funds of social insurance institutions.* Stud. and rep., ser. M, no. 16. (Geneva and Washington: Internat. Labour Office. 1939. Pp. viii, 196. $1.25.)

*Investments and trade.* (New York: Standard Oil Co. 1940. Pp. 19.)

*Investment trusts and investment companies, report of the Securities and Exchange Commission, pursuant to section 30 of the Public Utility Holding Company act of 1935.* Part 2. *Statistical survey of investment trusts and investment companies.* Part 3. *Abuses and deficiencies in the organization and operation*

*of investment trusts and investment companies.* Chap. 5. *Problems in connection with capital structure.* Chap. 6. *Accounting practices and reports to stockholders generally—accounting practices of the United Founders Corporation group of companies with a description of their activities.* (Washington: Securities and Exchange Commission. 1939. Pp. 937; 440; 414.)

*Selected books on business.* Nebraska stud. in business no. 43. (Lincoln: Univ. of Nebraska. 1939. Pp. iv, 50. 50c.)

## Capital and Capitalistic Organization

*A. T. & T. The Story of Industrial Conquest.* By N. R. Danielian. (New York: Vanguard. 1939. Pp. 460. $3.75.)

The recent investigation of the telephone industry made under the direction of the Federal Communications Commission was unique in its thoroughness. When the investigation was closed, there were over 60 volumes of transcript, over 2,000 exhibits, and more than 70 volumes of staff reports. In this record of telephone company history, accumulated at a cost of $1,500,000 to the government, there is probably the most complete factual information in existence on the operations of an important American business enterprise. It is complete not only because of its historical continuity from the beginnings of the telephone industry to the present, but also because all phases of the Bell System operations are covered. From a study of this material, Mr. Danielian has prepared a story of industrial conquest.

The work of Danielian is not a restatement of the Commission's report on the investigation. Rate regulation is only one of the different aspects of Bell System operations which are considered by the author. In fact, it is the influence exercised by the A. T. & T. management on owners, employees, competitors, and the public that receives most attention in this volume. Actually a social evaluation of the telephone company's activities is attempted.

The Bell System is presented as an industrial empire and the similarities existing between the policies and activities of this organization and those of a political state are stressed at every point. It is the contention of the author that its methods of control, its means of expansion, and its relations with the government and the public are all fundamentally political in nature. He would have the reader see the Bell System as a state within a state, and an imperialistic one, at that.

The workmanship of the book is of high quality. Mr. Danielian's style is interesting and his arguments well supported. The facts are said to be a matter of public record and beyond dispute. Indeed, much of the material is in the form of quotations from memoranda and letters written or received by major executives and from minutes of important conferences in which Bell System executives participated. As financial and utility expert for the Federal Communications Commission, the author was in an

excellent position to become familiar with the information made available by the investigation. That familiarity is reflected in the finished work.

The book might be considered an indictment of policies and practices of the giant corporations. After pointing out the many conflicts between the activities of the Bell System management and the interests of the general public, the author calls attention to the fact that much the same thing is true of the other large corporations of the country. Given a wide distribution of stock and no one stockholder having a dominant position, a self-perpetuating business bureaucracy usually develops. Once established, such a bureaucratic organization tends to follow a pattern of political behavior. The A. T. & T. is presented as one of the more important and better behaved of these corporations.

It is unfortunate that the material chosen or the interpretation thereof is so consistently unfavorable to the corporation. Not only are the policies and activities of the A. T. & T. management criticized but the assumptions of the author with respect to the underlying motives place the management in a bad light. The reader is very likely to conclude that the author's viewpoint is biased. In case the reader is of the opinion that the decisions of a management dominated by operating executives might be in accord with the general social welfare more often than the decisions of a management composed of capitalists or financiers, he will find it difficult to avoid the impression that the version is one-sided. Since the volume is presented as an attempted "social evaluation of the telephone company's activities," such an impression detracts considerably.

W. E. Dickerson

*Ohio State University*

NEW BOOKS

Buchanan, N. S. *The economics of corporate enterprise.* (New York: Holt. 1940. Pp. xvii, 483. $3.25.)

Cahan, S. *Cost of utility regulation, State of New York, 1921-1939.* (New York: Public Service Comm. 1940. Pp. 15. 15c.)

Carey, H. F. *Cases on the law of trusts.* 2nd ed. (Rochester: Lawyers Co-op. Pub. Co. 1939. Pp. 816. $6.50.)

Feroldi, F. *I presupposti economici della discipline giuridica dei gruppi d'imprese.* (Milan: Soc. Edit. "Vita e Pensiero." 1939. Pp. ix, 121. 8 lire.)

While cartels have been regulated and fitted into the Italian corporative system, sundry other forms of entrepreneur association, which some students consider the true unit of the modern productive process, remain outside. Here are gentlemen's agreements, the personal union, stock sharing, the holding company—all devices to reduce overhead costs. This thoughtful study examines their economic function, together with proposals for their reform, and suggests a basis for inclusion within the corporative system.

R. F. Foerster

Montgomery, R. H. *The brimstone game: monopoly in action.* (New York: Vanguard. 1940. Pp. 94. $1.25.)

RESTA, M. *Il capitale fisso e le trasformazioni industriali.* (Padua: Cedam. 1938. Pp. 176. 16 lire.)

This study is a kind of synthesis of the principal writings in the field of economic dynamics, with special reference to the investments of fixed capital and to their influence on the transformations of the size and structure of industry. Chapters I, II, III establish the basic elements of the problem of transformations of fixed capital; and chapters IV, V, VI review the most significant qualifications for its mobility and the possibilities of adaptation of existing plants to the new requirements of production. The purpose of this synthesis is to clarify the economic consequences resulting from the process of expansion of fixed capital and the social implications of this phenomenon.

The author covers the long journey from Ferrara's first approaches on economic significance of fixed capital to its economic and social implications in the still rather undetermined sphere of regulated and planned economy. The stages in this rapid and difficult route are marked, on one hand, by the various aspects of the industrial organization in the continuous process of technical evolution, and, on the other, by the evolution of the concept of fixed capital, as defined in the theoretical analysis of Macleod, Leroy-Beaulieu, Pantaleoni and Machlup. Chapter VI, especially concerned with the rapid amortization of fixed capital, is one of the most interesting and full of keen, though rather controversial, remarks. Mr. Breglia observes that, while the manufacturer wants a continuous change in circulating capital, at the same time he stands for the maximum of stability of fixed capital. The author points out that industrial plants, especially on the Continent, are built to last for too many years, with the consequence that they become obsolete and, strange enough, constitute a less safe investment than the circulating capital invested in the enterprise. This statement frequently made by European economists and business-men suggests as a solution the building of industrial plants to last for a shorter period of time. But the experience in the United States shows that this device does not protect the investor against the obsolescence of the plants, however built. The race between the short economic life of a plant and the continuous application of new technical discoveries constitutes a permanent threat to the process of amortization of a plant.

In recent years it seems that the rapidity of the business cycle surpasses the adaptability of the plants. Thus the problem remains whether it is still economically possible to amortize some of the large plants used in modern mass production, even though intended for a specially short life. It would thus appear that the problem cannot be solved short of instituting a comprehensive system of industrial planning.

FAUSTO R. PITIGLIANI

ROSE, J. R. *Public utility regulation in Pennsylvania.* A dissertation. (Philadelphia: Univ. of Pennsylvania. 1939. Pp. viii, 172.)

This is a study of regulatory policy development by the Pennsylvania Commission since its inception in 1913. It depicts the scope of regulatory authority and traces the Commission's policy on the rate base, the rate of return, depreciation, security issues, and accounting.

From his examination the author concludes that the Commission "has not followed a policy based upon economic considerations of any kind." The primary basis for this criticism is that, in exercising its powers with respect to depreciation allowances and the return to capital, the Commission apparently

has taken little cognizance of the fact that public utilities must compete with other industries in securing their capital. Furthermore, he feels that the constant search for new methods of control (such as informal conferences, temporary rate orders, and new accounting systems) seems to indicate that regulation in Pennsylvania has not been particularly effective, although the results, in quality of service and level of rates, probably have been as satisfactory as in most other states.

Pursuant to a 1937 statute the Commission was entirely replaced. Some of the powers granted to the new Commission, it is held, are unnecessary to the performance of purely regulatory functions. The power to prohibit any expenditure which the Commission considers excessive, for instance, constitutes an invasion of the managerial field.

In a rather sketchy theoretical excursion the author contends that the return to capital should be determined by applying to a reproduction cost rate base a rate of return comparable to the yield (*i.e.*, the ratio of earnings to market price) on the securities of unregulated industries. This controversial subject involves so many considerations, both theoretical and practical, that brief treatment can hardly be expected to do it justice. In any case, such a definitive conclusion is scarcely necessary to the support of the general thesis.

ROBERT W. MAYER

WHITE, L. H. *Money economy by an engineer.* (Birmingham, Ala.: Birmingham Printing Co. 1939. Pp. v, 132. $3.)

"Personally, while I do not consider capitalism an ideal political economic order by any means, still with human nature such as it is, I believe it to be the best practical system for governing most of the economic transactions in a democratic state. I also believe the collapse of our former economic order was caused by a pre-depression drift into socialism."

*Illinois Commerce Commission: twenty-second annual report, July 1, 1938, to June 30, 1939.* (Springfield: State of Ill., Centennial Bldg. 1939. Pp. 232.)

Deals with the regulation of public utilities.

## Labor and Labor Organizations

*Organized Labour in Four Continents.* By H. A. MARQUAND and Others. (New York: Longmans Green. 1939. Pp. xiii, 518. $4.00.)

This book contains eleven essays by eleven authors on organized labor in thirteen countries. Eight of these countries are in Europe: France, Germany, Great Britain, Italy, Norway, Sweden, Denmark and Soviet Russia. America is represented by the United States, Canada and Mexico; Australasia by Australia; Asia by Japan. The period studied covers the "years that have elapsed between the signing of the Peace Treaties of 1919 and the destruction of trade unionism in Germany, Austria, Czecho-Slovakia and Spain . . ." (p. v).

The subject matter of the book is more comprehensive than its title would suggest. Each essay is a narrative and interpretative study, not merely of organized labor, but of labor in its broadest implications. In addition to an account of trade-union membership, industrial disputes, wage legisla-

tion, and the like, there is also—as illustrated by Professor Marquand's chapter—a discussion of such matters as price movements, changes in the course of foreign trade, budget difficulties and reparations payments. The authors proceed, and properly, on the assumption that labor developments can be understood only against the institutional background of which they are a part.

Some of the conclusions reached in this book may be mentioned here as indicative of the nature of labor problems in particular countries. Professor Philip states rather optimistically: "French trade unionism is moving in a new direction. No longer does it adopt a truly negative anti-state attitude of pre-war days" (p. 59). Professor Roll views the collapse of a pre-trade union movement in Germany and believes that its revival is conditional on "the disappearance of a totalitarian regime" (p. 116). Dr. van Aartsen, writing as a resident of Italy, believes that the influence of the working class has increased since 1926; but he adds that a worker "may bring forward his wishes only through the official channels, and his association, before backing his desires, will first see that their fulfilment does not harm production as a whole" (p. 227). Professor Perlman, deeply concerned about the civil war in American labor, believes that "the future of American labor may be decided by the speed with which the breach in its economic organization will be repaired" (p. 399). The characteristic feature of the labor situation in Japan, according to Dr. Ayusawa, is the small percentage of organized workers—6.2 per cent in 1937. Mr. Ross, writing about Australia, suggests that a labor-controlled government, like any other, will be defeated if in power during a depression "because the people place on such governments the responsibility of failing to solve the crisis without lowering standards" (p. 475). Probably no one will agree wholeheartedly with all the conclusions stated in this volume. But it is apparent that the authors were, in the main, objective and painstaking in their analysis.

Some readers may be disappointed that no attempt was made to integrate the contributions of the several authors. The volume invites its readers to visit many countries, offers in each an expert guide, but provides no help for the traveler who is searching for similarities and differences between them. Professor Marquand, as general editor, thought it unwise to undertake "an impossible synthesis." As a result, while each essay in the book has merit, all of them put together have a total merit less than the sum of their parts. It would have been desirable, in this reviewer's opinion, had certain underlying trends been noted as characteristic of individual countries, and yet overlapping several. By such treatment the problems of labor could be better visualized as cutting across political boundaries.

HARRY HENIG

*University of Cincinnati*

*Social Change and Labor Law.* By MALCOLM SHARP and CHARLES O. GREGORY. (Chicago: Univ. of Chicago Press. 1939. Pp. vii, 175. $2.00.)

To the labor economist, the six lectures by these associate professors of law represent an interesting shift in emphasis in the training of law students and law faculty. Mr. Sharp deals with "Society and the law," developing the theme of responsibility as it relates to property. The main problem is that of adjusting the minds of parties to litigation and of decision-makers in private business to "new notions of responsibility, particularly the responsibility of the relatively rich to the relatively poor . . . ," notions brought about by social change.

His second lecture poses for discussion the reflection in constitutional decisions of ideas about social and economic organization. Will old ideas of "contract" be modified to give judicial sanction to a system of individual enterprise and free competition in trade or to one of "monopoly and regulation in trade" plus government operation?

Private right and public power are issues. Philosophizing on these problems leads to crystal-clear passages concerning the rôle of the industrial corporation as a governing agency. Documentary evidence of a changing social philosophy of business managers is given; a fiduciary relationship is indicated with workers' rights receiving growing attention. Mr. Sharp suggests the need for some practical adjustment of the relation of the large industrial corporation to the democratic federal state.

Mr. Gregory's three lectures discuss succinctly, and at times picturesquely, the general theme of "Government control of labor disputes." American practice is differentiated from English as it stems from the "Common law" (lecture 1); nowadays English law reports only rarely contain decisions concerning labor disputes. Trade-union cases are usually suits on collective agreements or are similar to ordinary civil litigation.

Striking phrases dot the pages and express his dissent from "widespread judicial antipathy to union objectives" (p. 146). A "question begging maxim . . . that intentionally inflicted harm is actionable unless justified" is harpooned by his dictum, "Justification depends largely upon the judges' social and economic predilections" (p. 93). In spite of Justice Shaw's decision in Commonwealth *versus* Hunt, Gregory says that the judiciary did not surrender to labor unions but spent the next forty years developing new weapons. Union pressure to extend power through wider and closer organization was offset with the labor injunction.

Traditional judicial reaction to particular union practices is subjected to analysis and lampooning; he suggests giving the "economics of negotiation" a trial so that industrial disputes will become a thing of the past. Signs of the times indicate some tendency for the judiciary to recognize the objectives of organized labor even in the absence of legislation.

Lecture 2 enlarges upon labor's heavy burden under both the Sherman and the Clayton acts but introduces the Norris-LaGuardia act as *deus ex machina*. Anti-injunction laws are represented as a step toward "achieving the legality of non-violent, non-fraudulent, and non-libelous labor practices for all general purposes" (p. 143). Although organized labor's own coercive program met with opposition in many courts, some justices indicated possible legislative relief.

The final lecture portrays congressional efforts to attenuate the explosive force of labor disputes by sublimation. Legislative guaranties to secure labor's right to organize and to negotiate collective agreements (which are treaties rather than contracts) are part of a new governmental policy enunciated alike in the Railway Labor act of 1926 ("as overhauled in 1934"), and in the National Labor Relations act. The legal and administrative problems involved in the latter Act receive bold and imaginative treatment in Professor Gregory's final chapter. Employers' fears that collective agreements will result in an organized control of employment must be dissipated by mutual efforts to help the Board make the Wagner act work. Failure in this direction means a resumption of labor disputes—a calamity the community should avoid. Labor will not down. If coercive self-help is not replaced by legal recognition of the desirability of peaceful and rational methods of achieving organization and collective bargaining, labor will resort to politics. It is predicted that social danger might result if unions become powerful politically as well as economically. The book concludes: "We stand on the sidelines, some proclaiming, many dreading, the day when labor unionism becomes of age." Economists should read these lectures to find out how a new generation of lawyers can be taught to be economic realists.

Albert T. Helbing

*Illinois State Department of Labor*

*Strikes: A Study in Quantitative Economics*. By John I. Griffin. (New York: Columbia Univ. Press. 1939. Pp. 319. $4.00.)

Like previous writers on strikes in the United States, the author has available detailed federal figures for 1881-1905 and for 1915-1937, which were recently printed as Bulletin 651 of the Bureau of Labor Statistics. The gap of nine years, which Hansen tried to close by using Canadian data, Dr. Griffin closes by gathering figures from the seven states for which they are available and which contained nearly half of the country's strikes. He finds the Massachusetts records especially detailed, gives them extended study and prints them in the appendix.

Dr. Griffin discusses the data in many aspects. He notes major peaks in 1919 and 1937, when the unionizing process had been fostered by the "political climate." But he does not stress the major peaks of strikes in

1886 and 1907, which followed waves of unionization not favored by "political climate." It is true that, in terms of numbers of workers involved, 1886 and 1907 were not very big years, but in number of strikes 1907 is close to 1919 and the strike-record of 1886 looked very big at the time, when unionism was young.

All these peaks were made possible by favorable business conditions, as were the smaller rises. Dr. Griffin finds a strike cycle averaging 3.3 years. (It would be 3.6 if 1930-38 were included as the most recently completed cycle.) The peaks came at about the same time as business peaks did, often a little after. Belated strikes, after a business downturn has taken place, are likely to be lost. Perhaps so many have been called because unions until recently have not kept close track of business fluctuations, or because accustomed rates are looked on as just rates and therefore proposed cuts must be resisted. Later, in the depression, there may be strikes of desperation. But mostly despair is stored up to be expressed at the next business upturn. As stated in the preface of Bulletin 651, "Strike statistics can never exactly measure industrial unrest."

In making this cycle study the author compares the strike figures with the ups and downs of wholesale prices. He would have done better to use employment or output figures; when orders and employment fall off the employer is less in need of the employees. Dr. Griffin preferred to take wholesale prices as representing "the cycle" because employment and output are dependent variables, being themselves affected by strikes.

Do strikes reduce employment and output a great deal? This problem is important in itself and incidentally the answer to it might help decide the "dependent variable" question. The author points out (when he notes that the importance of strikes cannot be judged by the usual pro-rata estimates of lost wages and profits) that, in some cases at least, lost output is made up after the strike. Perhaps in some cases orders are taken over by other employers. If so, total output is not greatly affected by strikes. He suggests, however, that the prevalence of strikes at the peak of business may mean that they disrupt the productive scheme or the expectation of profits and help cause the downturn. Apparently there is not quantitative evidence on these points.

After a union becomes a settled part of an industry, strikes may be less frequent because both sides should be able to estimate the economic situation better than before and agree on terms instead of suspending operations; neither side has to prove its potency to itself or to its opponent. Dr. Griffin considers this possibility. One gathers from his figures that, on the whole, labor in the United States is still not past the organizing phase, for, though "strikes called by unions" are becoming a larger part of the total, this category is nearly half made up of "organizing" strikes, that is,

strikes by unions not yet established. Though industries with a long experience of unionism have in general high strike levels, yet the experience of individual industries varies widely. The author hazards that in the future more and more of them may fall into the pattern of the railroad industry, with governmental intervention, or of the printing industry, with private arbitration—and thus become outwardly more peaceful.

The official reports (after useful simplification by Dr. Griffin) present us with a division of strikes into those for wage increases, against wage decreases, for hours reasons, and for other reasons (especially organization). In the war years, the reports show, the first cause rose sharply, hours dropped markedly in importance, and "others" also dropped. Dr. Griffin explains that "hours" were not important because men wanted to work long hours and earn bonuses. Yet we know that average hours fell six per cent between 1914 and 1920 and that collective bargaining had much to do with it. The proportion of organizing strikes is reported to have dropped in the war years, or not to have increased. Yet union membership doubled; employers who had never dealt with unions did so—after a strike. The author himself supplies many other cases in which the figures must be checked by other knowledge.

CARL RAUSHENBUSH

*New York University*

*Technology and Labor: A Study of the Human Problems of Labor Saving.* By ELLIOTT DUNLAP SMITH in collaboration with RICHMOND CARTER NYMAN. (New Haven: Yale Univ. Press. 1939. Pp. xiv, 222. $2.50.)

The hidden costs of labor unrest which fall daily upon industry and community are not included in the "labor costs" of production (wages only), and yet they are a substantial part of the expense of employing labor. If they could be calculated, the problems which confront the National Labor Relations Board and all who are involved in industrial relations would appear even more imperious than they do today. Given the best known mechanical instruments of production, the way workers feel and think about their work is a force of great potentiality in an industry's organization. Unit costs are driven down or up according to whether this force is constructive or corrosive. "Speeded up" by a conveyor belt, or given large new work-loads with inadequate technological support, workers are disconcerted and resentful. This is not only because habits have been sharply disrupted, but also because standards of living and family relations are affected; because the whole psychology of workers changes. Frederick Taylor said that the reason for resistance by labor is the responsibility of management. Without the principles of scientific management, industry could not have advanced to its present plane of production. But without

application of these principles on the human side, further advance becomes ever more precarious.

This volume is of high importance because it develops these principles and their application in dealing with the human problems of technological change. Almost the only book of this kind, it is concerned with "labor technology" which gets more work out of labor, rather than with the more familiar "machine technology" which increases the efficiency of the machine. It is an authoritative report of years of scholarly case study and interpretative analysis of labor saving in 18 cotton textile mills, presented by a brilliant teacher.

Although the mechanization of modern cotton manufacture began some 40 years ago and was completed soon after 1920 with automatic shuttle-changing, it was not until the depression of that year that the mills turned to the scientific use of the looms. In some well-managed mills, engineering principles guided in smoothly and successfully the "multiple-loom" or "extended-labor" system, by which a weaver could take care of many more looms than before by being relieved of much of his former work. But because the formulas were misapplied in many mills by a sudden and technologically unprepared extension of the weaver to tend as many as 72 looms, labor dubbed the process the "stretch out," and experience was bitter and costly.

Briefly the installation proceeded as follows: each preliminary condition and process was examined and gradually perfected, from raw cotton purchased to warp finishing and shuttle winding. Weaving labor was then functionalized, as Taylor functionalized management. Better quality of shuttle yarn and of warps reduced loom stoppages so the weaver could take over a greater number of looms. This gave him more unskilled than skilled work to do—more looms to clean and batteries to fill than "ends down" to tie in. Consequently, boys, girls and women were taken on as unskilled "specialists" to help the weaver operate his looms. Now deprived of his traditional sovereignty, the weaver was kept walking on a precisely scheduled beat. He repaired stopped looms only as he came to them, being required to disregard those off his route as well as to restrain himself from interfering in delays and errors caused by his unskilled associates; for these were the new responsibility of management.

Labor unrest hovered over this installation from seven main causes: (1) interference with habit; (2) destruction of independence; (3) increased strain of concentrated tasks now unrelieved by routine tasks; (4) the changed nature of the job which required different physical and nervous faculties, *e.g.*, strength to doff rolls of cloth was no longer needed, but strong arches for constant walking were essential. Although accustomed to the frailties of his looms, the weaver's self-control was now also tested by the frailties of the specialists. (5) Demotions, which greatly exceeded discharges, the actual number of weave-room workers remaining nearly

the same as before. In one mill, skilled weavers were reduced from 80 to 48 per cent of the total force in the weave-shed; in another, from 62 to 45 per cent; in another from 78 to 69 per cent. For the industry as a whole, 1923 to 1930, the percentages of weavers to all operatives fell from 27 per cent to 19 per cent. (6) Lower average wages. Although some mills increased weavers' average wage from $17.50 to $20.65 per week, and a few raised relatively the wages of all affected workers, "in only one did this make up for the loss in earnings due to the higher proportion of low-paid work." In one mill, where wages were raised all round, the increase in the proportion of unskilled workers from 20 to 52 per cent caused the average wage of all loom workers including weavers to fall from $16.20 to $15.38. Moreover, all knew that wage increases were "merely temporary in effect," because in time they would be affected by general market conditions. In one of the few mills where data were existent, the proportion of girls 14 to 18 years of age rose from 25 to 50 per cent of all weave-room workers. (7) The financial investment required to stretch a weaver over more looms, without laying the technological foundation necessary for ultimate success, was so small that it acted as an incentive to make the experiment, rather than as the deterrent which a large initial outlay for machinery tends to supply.

To reduce labor unrest, the successful mills buttressed morale by strengthening the confidence of the workers in the aims and methods of their procedure. Control records were set up and remedies applied promptly in case of overstrain. A burden-of-work index (number of times per hour that a loom stopped) was an objective safeguard which could be written into an agreement. "Nearly every successful mill . . . made the continuance of the enlarged work assignments contingent upon the maintenance of loom stoppage below a specified level," reports Dr. Smith. Work assignments were thus reduced in some cases, while in others they could be increased "after management and employees became accustomed to the new situation." But low loom stoppage had also to be weighed against counteracting conditions such as longer distance to walk, poor floors, better quality of cloth required, less reliable bobbin and cleaning service; so that "one mill not only made loom-stoppage tests at regular intervals and on every set of looms in turn, but always made them with an employee observer." In one mill, assignments were retained only if technicians, executives, and workers agreed that they were "right."

By ingenious methods, sequence and *tempo* of change were studied, and the results divided into those which affected the economic welfare of the mill and those which affected labor. All material was gathered by first-hand observation and interviews at the mill. Mill records and cost accounts were examined; also the records of unions if they were available.

ELIZABETH F. BAKER

*Barnard College*

NEW BOOKS

BENHAM, E. D. *The woman wage earner: her situation today.* Bull. of Women's Bur. no. 172. (Washington: Supt. Docs. 1939. Pp. v, 56. 10c.)

CARSEL, W. *A history of the Chicago Ladies' Garment Workers' Union.* (Chicago: Normandie House. Pp. 347. $2.50.)

COOKE, M. L. and MURRAY, P. *Organized labor and production: next steps in industrial democracy.* (New York: Harper. 1940. Pp. x, 277. $2.50.)

CREAMER, D. and COULTER, C. W. *Labor and the shut-down of the Amoskeag Textile Mills.* Rep. no. L-5. (Philadelphia: WPA, Nat. Research Project. 1939. Pp. xxii, 342.)

JAEGER, W. H. E. *Cases and statutes on labor law.* (Rochester, N.Y.: Lawyers Co-op. Pub. Co. 1939. Pp. 1124. $6.50.)

JOHNSEN, J E., compiler. *The National Labor Relations act: should it be amended?* (New York: Wilson. 1939. Pp. 416. $1.25.)

KNOX, J. C., and others. *Comments on labor courts.* (Bronx: Louis Kirshbaum. 1939. Pp. 20.)

MCDONALD, D. J. and LYNCH, E. A. *Coal and unionism: a history of the American coal miners' unions.* (Silver Spring, Md.: Lynald Books. 1940. Pp. 226. $2.50.)

MARIANO, J. H. *The Busch Jewelry Stores labor injunction.* (Boston: Christopher Pub. House. 1940. Pp. 238. $2.50.)

MITCHELL, E. M., compiler. *The Public Contracts (Walsh-Healey) act: selected references.* (Washington: U. S. Dept. of Labor Library. 1940. Pp. 13.)

PELL, O. *Supplement to the annotated list of pamphlet material for workers' classes.* (New York: Am. Labor Education Serv. 1940. Pp. 15.)

ROTH, A. E., and others. *Employer associations in collective bargaining.* Personnel ser. no. 37. (New York: Am. Management Assoc. 1939. Pp. 27. 50c.)

SAPOSS, D. J. and DAVISON, S. *Structure of AFL unions.* Res. mem. no. 8. (Washington: Nat. Labor Rel. Board. 1939. Pp. 12.)

SNYDER, E. M. *Job histories of women workers at the summer schools, 1931-34 and 1938.* Bull. of Women's Bur. no. 174. (Washington: Supt. Docs. 1939. Pp. vii, 25. 10c.)

STARNES, G. T., and others. *A survey of the methods for the promotion of industrial peace.* (Charlottesville, Va.: Bur. of Public Admin. 1939. Pp. 146. $1.)

TERRY, J. W. *American labor and the trade agreements.* (Des Moines: Econ. Policy Committee. 1939. Pp. 30. 10c.)

WHITE, K. *Labour and democracy in the United States.* (Liverpool: Univ. Press of Liverpool. 1939. Pp. xi, 381. 12s. 6d.)

WINSLOW, C. M. and CLARK, K. R. *Profit sharing and pension plans: their creation and tax effect.* (Chicago: Commerce Clearing House. 1939. Pp. xiii, 192. $2.)

This volume should prove of inestimable value to corporation executives who have in actual operation or contemplate the establishment of profit sharing and pension plans for their employees. The authors at the outset establish the thesis that both employers and employees are generally agreed that profit sharing is conducive to profit making. This is particularly true where deferred distribution of profits rather than immediate distribution is practised.

Among some of the advantages of deferred distribution schemes discussed

by the authors are the decrease of corporate income and profits taxes without a decrease in net income in prosperous years; tax saving for employees, especially those in the higher income brackets; use of the deferred profit sharing fund during depressions for loans to employees; and the possible conservation of capital through the investment of part of the fund in securities of the employing company. Attention is also given to possible tax economies with reference to state and federal inheritance and estate taxes, state income taxes, and other local levies affected by earnings.

The authors present a practical and detailed analysis of the more desirable or necessary features of a profit-sharing plan on the deferred distribution basis. This analysis is followed by a number of well known corporate plans actually in operation.

Section 2 of the volume is devoted to the legal phases of the various tax factors involved in profit sharing and pension schemes. Thus there is an extended sketch of the statutory provisions of the federal income tax laws, social security tax regulations and others. A further valuable contribution of this work is found in an outline of conditions necessary for the creation of a valid employees' trust.

EARL E. MUNTZ

WOYTINSKY, W. S. *Additional workers and the volume of unemployment in the depression.* Pamph. ser. no. 1. (Washington: Soc. Sci. Res. Council, Committee on Soc. Security. 1940. Pp. vii, 37. 50c.)

*Dominion of Canada: report of the department of labour for the fiscal year ending March 31, 1939.* (Ottawa: H. M. Stationery Office. 1940. Pp. 111. 25c.)

*Employers' digest of the Fair Labor Standards act of 1938.* (Washington: Supt. of Docs. Pp. 6.)

*Employment, wages and international trade.* Stud. and rep., ser. B, no. 32. (Geneva and Washington: Internat. Labour Office. 1940. Pp. 107. 75c.)

*International Labour Conference: twenty-fifth session, Geneva, 1939. Record of proceedings.* (Geneva: Internat. Labour Office. 1939. Pp. xxx, 670.)

*Labour organization in Canada: twenty-eighth annual report for the calendar year 1938.* (Ottawa: Dept. of Labour of Canada. 1939. Pp. 256. 50c.)

*Labour, the war, and the peace: a declaration of policy by the national executive of the British Labour Party, February 9, 1940.* (London: Labour Party. 1940. Pp. 9. 1d.)

*List of references on National Labor Relations Board, October, 1939.* (Washington: Nat. Labor Relations Board. 1939. Pp. 26.)

*National Labor Relations act.* Hearings part 24. (Washington: Senate Educ. and Labor Committee. 1940. Pp. 4635-4770. 15c.)

*National Mediation Board: fifth annual report, including the report of the National Railroad Adjustment Board, for the fiscal year ended June 30, 1939.* (Washington: Supt. Docs. 1939. Pp. v, 91. 20c.)

*Standards for employment of women in industry.* Women's Bur. bull. no. 173. (Washington: Supt. Docs. 1939. Pp. 8. 5c.)

*Trade union facts.* (New York: Internat. Pubs. 1939. Pp. 124. 25c.)

*Women at work: a century of industrial change.* (Washington: Supt. Docs. 1939. Pp. iii, 80. 15c.)

## Money, Prices, Credit, and Banking

*Golden Avalanche.* By FRANK D. GRAHAM and CHARLES R. WHITTLESEY. (Princeton: Princeton Univ. Press. 1939. Pp. xv, 233. $2.50.)

Only ten years ago many economists were greatly concerned about a gold *shortage.* Kitchin had made his study forecasting a world-wide decline in commodity prices because a decrease in the production of gold was inevitable. Other studies published by the League of Nations supported this point of view. Many believed we were approaching a period similar to the years 1873 to 1898.

In 1930 it was common to blame the rapid decline in commodity prices upon the scarcity of gold. In fact, a number of British economists were certain that this was one of the major causes of the depression then well under way. Most American economists, however, emphasized a maldistribution rather than an actual shortage of gold. For, by August, 1931, our gold stock had grown to five billions, the largest store of that metal in our entire history.

While Britain was still worried about a gold shortage, American economists became likewise worried, but because of the rapidity with which gold was coming to our shores. The late James Harvey Rogers expressed his fears in *America Weighs Her Gold.* In 1940, we have thirteen billions more gold than in 1931 and it is still flowing in. One wonders why we were so greatly exercised over a mere five billion.

To Graham and Whittlesey this golden avalanche has presented us with a problem of the first magnitude. Devaluation, early in 1934, raised our stock of gold from four billion to approximately seven billion overnight, but eleven billion more have been added in just six years. In 1939 alone we imported three and one-half billion. For this situation, say the authors, our policy of freely buying gold at a high fixed price is primarily responsible. Our silver buying policy has been roundly condemned, and justly so. But, practically every argument that has been directed against our silver policy can also be used against our gold-buying policy. Strangely enough, however, our gold policy has brought little public condemnation.

The authors summarize the causes of the gold flow to the United States as follows: (1) Our gold purchase policy. (2) General uncertainty and fear on the continent of Europe, inducing a flight of capital to the United States. (3) Absence of the automatic corrective adjustments (such as a rise in our price level) traditional to the old international gold standard. Gold is now divorced from any direct connection with the pricing mechanism. It has ceased to be a regulator of international economic relations. Therefore "imports of gold to any country willing to buy it in unlimited amounts may continue indefinitely" (p. 50).

How have we paid for this gold? The two most important sources have

been the sale of goods and capital operations. But, with respect to the sale of goods, it might be argued that the goods have paid for the gold instead of merely considering the gold as payment for goods. Capital operations may be summarized under three headings: (1) Foreign investment in the United States; (2) earmarked gold; and (3) repayment of American investment abroad. It is not generally realized that as the result of these capital movements this country is being rapidly forced into a *debtor* position on international account. In short, we are no longer the great lending nation that we are generally assumed to be.

Certain economists have stated recently that most of our troubles would be over if only we should return to the gold standard. It may surprise them, therefore, to find Graham and Whittlesey arguing that our present appalling situation is largely due *to our return to gold* in 1934 (while the rest of the world stayed off) at a high fixed price for that metal (p. 78). This, in their opinion, was a great mistake, but it was due largely to pressure from conservative business-men and bankers. "It is somewhat ironical that the 'friends' of the gold standard are proving to be the greatest enemies of the standard they favor. They are largely responsible for the position in which we now find ourselves. . . . Whether we should or should not have devalued the dollar in terms of gold is perhaps an open question, but once having broken the link between our currency and gold we should have been in no hurry to go back alone" (p. 79).

The main beneficiaries of our present policy have been the producers of gold, who have been paid a handsome bonus for burying us under a golden avalanche which is more of a threat than a benefit to us. Their profits have been large because the cost of producing gold has risen very little, while the price jumped from $20.37 to $35.00 an ounce. Economically, these benefits have gone "to almost every country but our own" (p. 110). The chief beneficiaries are those countries opposed to Germany. Therefore, we are really helping them. "A strong case can be made for our gold policy . . . on these purely political grounds" (p. 112). Unfortunately, it has also helped Japan.

The authors have little faith that the problem will cure itself automatically. Certainly, gold-producing countries are not going to discourage the further mining of gold. If it is asserted that the cost of producing gold will eventually rise and make gold mining less profitable, it must be realized that it would require a great inflation to bring this about. There is little hope that the gold tide may turn outward again because of a large increase in our imports or foreign loans.

A serious threat in the present situation is the danger of inflation. Our excess reserves, much of which arose from gold imports, make a huge expansion of bank credit possible. Therefore, it might be wise seriously to consider putting gold certificates in circulation again (p. 146). Also, the

board of governors of the federal reserve system should be given the power to increase reserve requirements at will. Otherwise, they are almost powerless to prevent a bad inflation under present conditions (p. 155). A return to the gold sterilization policy of 1936 to 1938 on future imports would help. But since it would constitute a serious addition to the budget it is probably politically impossible.

Reducing the price of gold might be the best remedy. It need not lead to a price collapse. It need not cause a real loss, since the real loss has already occurred. But, psychologically, the result might be injurious. Probably neither political party would advocate it anyway.

In view of great political obstacles to most proposed remedies, the authors suggest a duty on gold imports as the way out. Let the internal price remain at $35 an ounce, but a tariff on imports could prevent any further large increments to our present stock. Accompanying this duty could be a bonus on gold exports. Chapters 10 and 11 present impressive arguments for abandonment of a fixed price of gold. Such a step need not necessarily bring great instability in exchange rates, and it would give us some control over our monetary destiny, a control we do not now possess.

Graham and Whittlesey have written a stimulating and thought-provoking book, one of the most important monetary tracts of our time. They leave us greatly in their debt. Many will not accept their conclusions. But, the reviewer finds himself in substantial agreement with the authors. They say this is only an interim, rather than a final, report. Regarding some of these problems and solutions they are still in doubt. We shall eagerly await further word from them regarding what should be done.

Those economists who are convinced that the solution to all our troubles lies in a return to the gold standard of 1914 may remain unconvinced. But the rapid course of monetary events may leave them far behind. For there are few signs that the major nations will return to the gold-standard-that-was in the near future. The present war may postpone any such plan indefinitely. What will follow the conflict in Europe is impossible to foretell. Problems of such magnitude may arise that the question of monetary standards may descend to the status of a mere detail. Whatever these problems are, they will not be solved by those economists who have learned nothing since 1914.

Charles S. Tippetts

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NEW BOOKS

Arndt, E. H. D. *The South African mints.* Pubs. ser. no. iii, arts and soc. sci. no. 9. (Pretoria: Univ. of Pretoria. 1939. Pp. vi, 115. 3s. 6d.)

Basu, S. K. *Industrial finance in India: a study in investment banking and state-aid to industry, with special reference to India.* (Calcutta: Univ. of Calcutta. 1939. Pp. xvii, 436.)

Bradford, F. A. *The legal status of branch banking in the United States.* (New York: Am. Economists Council for the Study of Branch Banking. 1940. Pp. 32.)

Brady, J. E., compiler. *Banking Law Journal digest: a classified digest of legal decisions published in the Banking Law Journal, from the time of its foundation in 1889 to January, 1939.* 5th ed. rev. (Cambridge: Brady Pub. Corp. 1939. Pp. 824. $6.50.)

Cominos, A. Z. *Die Währungs- und Kreditpolitik der Bank von Griechenland.* (Berlin: Junker und Dünnhaupt. 1940. Pp. 195. RM. 8.)

Edwards, G. *How banks lend.* (New York: Am. Bankers Assoc. 1939. Pp. 19. 25c.)

Foster, W. T. *Loan sharks and their victims.* Public Affairs pamph. no. 39. (New York: Public Affairs Comm. 1940. Pp. 31. 10c.)

Gilbert, M. *Currency depreciation, 1929-1935.* A dissertation. (Philadelphia: Univ. of Pennsylvania. 1939. Pp. xiii, 167.)

The author examined the exchange depreciation of Australia, England, Sweden and the United States with the purpose of showing the variety of causes and effects of depreciation, and also of assessing the significance of exchange manipulation in monetary policy. The countries chosen represent different types of experiences, Australia being an agricultural country, England being an important financial center, Sweden being a nation that left the gold standard simultaneously with England, and the United States being a nation that maintained gold parity until 1933.

The world-wide deflation was responsible for Australia's difficulties, because it expressed itself in a drastic decline of export prices and closed the sources of foreign credit to which the economic life of Australia had become adjusted. The relative rigidity of prices of manufactured products (which constituted Australia's imports) when balanced against the falling prices of exports (chiefly agricultural products) resulted in a severe disequilibrium in the balance of payments. Equilibrium could be restored only by internal deflation or depreciation.

In the case of Great Britain, the over-valuation of sterling from 1929 to 1931, and the liquidation of foreign balances that accompanied the international financial crisis in 1931, caused the suspension of gold payments. The internal effects of depreciation were beneficial in two ways: first, by relieving the flight from the pound, and second, by correcting over-valuation, thus allowing monetary expansion to relieve the depressed economic situation.

Sweden, being to a significant degree economically dependent upon Great Britain, was subjected to a drain of funds when England abandoned gold payments. The author concluded that had sterling not depreciated there is little reason to believe that the krona would have depreciated.

The United States deliberately devalued the dollar in order to aid the internal economic situation, thus introducing a new monetary policy. The depreciation in the United States was of doubtful value because it could not bring the desired rise in the general price level; and, although it contributed to the rise of import and export prices, it alone is not sufficient to explain the rise which did occur. Furthermore, the depreciation led to a large inflow of gold and short-term funds which became embarrassing at home and deflationary abroad.

The author concludes that depreciation is in the first instance an inflationary influence in the country that depreciates, but that the significance of this influence will vary according to the magnitude of the depreciation, the significance

which export trade has in the internal economy, and the importance of the depreciating country in world trade.

RUSSELL M. NOLEN

GROBBEN, M. *Industrial banking: a phase of consumer credit.* (New York: Consumer Credit Inst. of America. 1940. Pp. ix, 116. $1.50.)

HELM, F. *Banking developments in Missouri, 1920-1936.* (Sedalia, Mo.: Missouri Bankers' Assoc. 1939. Pp. 128. $2.)

KEMMERER, E. W. *The gold standard—its nature and future.* Address before the Connecticut Econ. Council, Hartford, Jan. 15, 1940. (New York: Economists' Nat. Committee on Monetary Policy. 1940. Pp. 18.)

LESTER, R. A. *Monetary experiments: early American and recent Scandinavian.* (Princeton: Princeton Univ. Press. 1939. Pp. xvii, 316. $3.50.)

This is a readable account of a number of instances in which unorthodox monetary measures appeared to produce good results, and of several cases in which *orthodox* monetary procedures appeared to produce bad results. The successful experiences consisted chiefly of inconvertible paper money issues in Colonial America and the recent and current experiment with a managed currency in Sweden. In contrast, the bad results of orthodoxy are illustrated by the severe business depressions that accompanied the policy and process of regaining the pre-war gold values for their currencies by Norway and Denmark in the period 1925-1928.

The moral of Professor Lester's book is introduced in his preface and is generously reiterated in each of the eleven chapters: orthodox monetary procedures are often either inadequate or positively vicious in their effects, and more flexible monetary policies, particularly expansionist procedures during business depressions, are needed.

Excessive issue and severe depreciation attended the paper money experiments of some of the American colonies, particularly those of New England and the South, which printed large quantities to pay military expenses. But Professor Lester's exposition of the favorable results achieved for considerable periods by French Canada and by Pennsylvania, New Jersey, and other of the middle colonies through the use of paper money to supply deficiencies in the physical means of payment, to finance government loans to citizens, to reduce interest rates, and to help overcome business depressions, provides a good corrective for the traditional categorical condemnation of such currency. Likewise, Professor Lester's discussion of the recent Swedish experience is a valuable corrective for some of the popular accounts which ascribe far more singleness of purpose and deliberateness of technique to the Swedish monetary policy than it has merited.

Despite his repeated and strong criticisms of monetary orthodoxy, Professor Lester is surprisingly orthodox himself in his concept of monetary forces. His principal emphasis throughout is upon mechanical monetary measures. The important monetary effects of governmental budgets, private investment activities, and similar factors, which have been increasingly prominent in the thought of modern monetary theorists, are given scanty attention. The Swedish "cyclical budget" idea which, as expounded by Professor Myrdal has aroused considerable interest in this country for its monetary possibilities, is barely mentioned.

A few minor errors in the text are doubtless due to careless proof-reading, but the author surely merits at least mild census for uncritically presenting

from a secondary source a table purporting to show the percentage depreciation of colonial currencies in terms of the British pound sterling, in which the figures for depreciation include such mathematical impossibilities as 295 per cent, 463 per cent, 950 per cent, etc.

A large part of the material in the book has appeared previously in article form. Much of chapters 3, 4, 5, and 9 was published in the *Journal of Political Economy,* and portions of chapters 10 and 11, in *The People's Money.* Part of chapter 10 also appeared as a supplement to the Svenska Handelsbanken's *Index.*

LAWRENCE H. SELTZER

SOUTHARD, F. A., JR., and others. *Foreign exchange practice and policy.* (New York: McGraw-Hill. 1940. Pp. ix, 215. $2.50.)

SPAHR, W. E. *The case for the gold standard.* (New York: Economists' Nat. Committee on Monetary Policy. 1940. Pp. 35.)

STOKES, M. L. *The Bank of Canada: the development and present position of central banking in Canada.* (Toronto: Macmillan. 1939. Pp. xii, 382.)

DE STRYCKER, C. *Les fonctions et les opérations de la Banque Nationale de Belgique de 1914 à 1938.* (Brussels: Goemaere. 1939. Pp. xxiv, 344.)

The history of the Bank of Belgium outlined in some 300 pages by Dr. Strycker was too broken by political events to serve as a good laboratory test of any banking theory. The outstanding impression left with the reader is that theory never caught up with fact and that the bank, in trying to formulate policy, was following rather than influencing events. From the occupation of the country by Germany in 1914—bringing a flood of marks to overwhelm the bank in its efforts at monetary stability—to the troubled pre-war period of 1938, the bank was being "reformed" and the franc devalued at a lower level every few years.

As a survey the book is competent and readable, but in seeking light on specific detailed relationships one looks in vain for a minute examination of some short phase to throw new light on the working of an attempt to reconstruct financial operation. The discussion of inflation, for example, is journalistic rather than scientific. Only around some relatively short episode could Dr. Strycker have explored the new notions of the economic rôle of a central bank. His failure to present such a searching analysis consigns his book to a group of other useful chronicles and gives the background of a stormy period of finance without indicating what lessons can be gained from the experiences outlined.

Granting the dominant rôle of international affairs over money and credit in Belgium, there should have been a discussion of Belgium's participation in the Bank for International Settlements, a more sophisticated discussion of the relation of the Belgian to the French franc, and further comment on the gold bloc and the London Conference of 1933. The usefulness of the information is limited also by the failure to indicate more definitely the relation to various types of private banks. This weakness is characteristic of much of the literature in the field but is none the less regrettable. There is still need for unbiased and scientific analysis of European central bank policy from 1920 to 1940.

ELEANOR LANSING DULLES

TIFFANY, M. E. *Retail food prices in relation to amounts, styles, and containers.* Bull. 448. (Burlington: Vermont Agric. Exp. Station. 1939. Pp. 51.)

VALLARINO, J. C. *Estudios sobre impuestos hipotecas y moneda.* (Montevideo: Impresora "Moderna." 1939. Pp. 225.)

————. *Moneda y patron monetario: doctrina y tesis.* (Montevideo: Impresora "Moderna." 1940. Pp. 271.)

WEISSMAN, R. L., editor. *Economic balance and a balanced budget: public papers of Marriner S. Eccles.* (New York: Harper. 1940. Pp. xxi, 229. $3.)

Material arranged chronologically, covering the period 1935-1939.

WILCOX, F. E. *A statistical study of credit unions in New York.* (Chicago: Univ. of Chicago School of Business. 1940. Pp. ix, 91. $1.)

Author is staff statistician of the Household Finance Corporation of Chicago.

WOOLLEY, E. S. *Bank management control.* (New York: George S. May Co. 1940. Pp. 152. $5.)

*Barclays Bank, Limited: report of the forty-fifth ordinary general meeting held on 24th January, 1940, and statement of accounts as at 31st December, 1939.* (London: Barclays Bank. 1940. Pp. 23.)

*The Chase National Bank of the City of New York: the report of the chairman of the board of directors at the sixty-third annual meeting of shareholders, January 9, 1940.* (New York: Chase Nat. Bank. 1940. Pp. 27.)

*Il controllo dei cambi nei vari paesi.* Quaderni ix. (Rome: Assoc. fra le Soc. Italiane per Azioni. 1940. Pp. 144.)

*Foreign exchange regulations: Great Britain.* (Basle: Bank for Internat. Settlements. 1940. Pp. 36.)

*Prices in Canada and other countries, 1939.* Issued as a suppl. to the *Labour Gazette,* Feb., 1940. (Ottawa: H. M. Stationery Office. 1940. Pp. 24.)

*Reglementation du commerce des devises: France.* (Basle: Banque des Reglements Internationaux. 1939. Pp. 43.)

## Public Finance, Taxation, and Tariff

*Government Price Policy in the United States during the World War.* By HERBERT STEIN. (Williamstown: Williams Coll. 1939. Pp. viii, 138.)

In this compact little volume is given a critical survey of the government's methods of dealing with the complicated problem thrust upon it by our entrance into the war, of transforming quickly a peace-time economy into a war economy with as little disturbance as might be of the living standards of the community, and without unduly increasing current war costs or creating burdensome debt services on the return of peace.

Mr. Stein views his subjects broadly and because of the close relation between prices, money costs and the use of credit, both governmental and private, he reviews the policies adopted by the government of financing its own extraordinary operations and in controlling the use of credit for private enterprise. About one-half of the book deals with this aspect of his subject. No adequate preparatory study had been made by Congress or the Treasury for dealing with the intricacies of so great a financial undertaking, and it is not strange that policies were developed haltingly and that so little was done "to integrate the financing policy with the transformation" to be

made. On the mooted question of a drastic tax policy assisted by loans *versus* a strong loan policy supported by taxes, Stein is in accord with most economists of the war period. He recognizes, however, the difficulty of finding taxes which would not on the one hand be regressive and thus bear most heavily on those least able to carry, or, on the other, dry up the chief source of savings with which to buy the bonds necessary to supplement taxes. But "since a transference of income from individuals to the government had to be made in any case, there is no theoretical reason why, after a few months for new taxes to become operative, the transfer should not have been made by taxation instead of by the inflationary bond method."

Aside from the volume of bonds issued, the manner of placing them comes in for the most severe criticism. The Treasury took the more convenient and perhaps safer course from the point of view of successful flotation, of relying too much upon the banks, with the result of bank credit inflation. The large and progressive resort to Treasury notes in anticipation of bond sales is especially criticized for its inflationary effects. If the economic appeal to investors of a higher interest rate had been made, a far larger proportion of the bonds would have been paid for out of savings; and at the same time would in some measure have supplemented the efforts of the Capital Securities Committee to restrict investment in non-essential industries. The further suggestion is made that this latter objective might well have been furthered by some kind of tax on investment in non-essential industries competing with the government for capital and labor.

In the chapter dealing with direct price control, Mr. Stein gives an all too brief but sympathetic account of the evolution of the various agencies employed, especially of the Fuel Administration, the Food Administration and the War Industries Board. His conclusion is that: "Price control succeeded in its aims of reducing prices in so far as was compatible with the maintenance of production." There is a hint that the author is concerned over the prospect of an extension of peace-time price control, and he warns that: "Permanent peace-time price control can only operate as part of a system of more fundamental economic controls," resting on quite other assumptions than it has been necessary to consider when dealing with temporary price controls in time of war.

G. O. VIRTUE

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NEW BOOKS

ALTMAN, G. T. *Introduction to federal taxation (1939 Act)*. 3rd ed., rev. and enl. (New York: Commerce Clearing House. 1940. Pp. 271. $2.)

BOWEN, H. R. *English grants-in-aid: a study in the finance of local government.* Stud. in soc. sci., vol. xi, no. 1. (Iowa City: Univ. of Iowa. 1939. Pp. 156. $1.)

Mr. Bowen's lucid and interesting monograph is an attempt to test the English system of grants-in-aid by the use of the so-called equalization criterion.

Defining the latter as "the equalization of financial resources and of access to governmental services" (p. 73), and interpreting this "to mean (1) that the extent and quality of each local service is *at least* up to a specified minimum standard throughout the country, and (2) that the burden of taxation *necessary to maintain this standard* is equal in all parts of the country" (p. 75), Mr. Bowen concludes that the results of the English experiments in this field are on the whole disappointing (p. 106).

A substantial portion of his monograph consists of a summary discussion of the nature of English local government, the historical development of English grants-in-aid, and the theoretical case for the equalization criterion. But these are well ploughed fields and Mr. Bowen can pretend to do little more than present in a lucid fashion a specific point of view. Consequently chief emphasis should be placed upon chapters 4, 5 and 7 in which the author tests statistically the alleged equalizing tendencies embodied in the reform of 1929.

On the whole his analysis of this difficult problem is clever and worthy of careful study. It would not be fair to berate him for assuming out of the calculation some of the more obvious imponderables such as the proper size of local government expenditures and the distinction between service rendered and money spent. Yet it would also be unwise to accept his analysis without recognizing the limitations to which it is subject.

The main point at which Mr. Bowen has left himself open to adverse criticism is in his handling of the inferences which might be drawn from his analysis of English experience with respect to the problem of American policy in this same field. Such inferences are particularly apt to be made in this case because of the similarity between Mr. Bowen's position and technique and those associated with the literature on the proposed federal grants-in-aid of education. The author has not been overly cautious in avoiding such inferences and yet does not enter into a detailed discussion of the validity of logic of this sort.

EUGENE E. OAKES

BRANNON, V. D. *State auditor and fiscal control in Missouri counties.* Univ. of Missouri stud., vol. xiv, no. 4. (Columbia: Univ. of Missouri. 1939. Pp. 106. $1.25.)

CHATTERS, C. H. and HILLHOUSE, A. M. *Local government debt administration.* (New York: Prentice-Hall. 1939. Pp. xii, 528. $5.)

CHISHOLM, L. L. *The shifting of federal taxes and its implications for the public schools.* (Madison, Wis.: Jour. of Experimental Educ. 1939. Pp. 84. $2.)

CLINE, D. C. *Michigan tax trends as related to agriculture.* Spec. bull. 301. (East Lansing: Michigan State Coll. Agric. Exp. Station. 1940. Pp. 88.)

CONNELLY, W. F. *Income tax manual for New York State, for residents and nonresidents.* 1940 ed. (New York: Harian Pubs. 1940. Pp. 28. 50c.)

DURBIN, E. F. M. *How to pay for the war.* (London: Routledge. 1939. Pp. 119. 3s. 6d.)

GANTENBEIN, J. W. *Financial questions in United States foreign policy.* (New York: Columbia Univ. Press. 1939. Pp. xiv, 264. $3.25.)

As a narration of what has occurred in recent years in the fields of exchange control, intergovernmental debts, foreign dollar bonds, and international double taxation, the book serves a useful purpose for those who desire to keep abreast of a complicated and fast-moving subject.

It is pointed out that "the development of financial problems with respect to

foreign policy has, for the most part, been comparatively recent" (p. 3). Only in the past few years has the matter of defaults on foreign bonds floated in the United States become important, and it has been mainly the recent international chaos that has forced governmental credit agencies to give exporters the financial assistance that commercial banks fear to provide. The author proceeds to a recapitulation of the rather well known events leading to the breakdown of the international gold standard (chapter 2, "Foreign-exchange instability"), and asserts that "it is quite probable that there will be a return eventually to some form of gold standard, though present conditions make this "extremely difficult, if not impossible" (p. 62).

The burdens placed on our trade and investment interests by the widespread practice of exchange control have required the attention of the Department of State. The development of policy is traced (chapter 3) on a background of the history of exchange control since it became important in 1931. In general the emphasis is on the techniques that have been evolved rather than on economic effects. Chapters 4 and 5 deal respectively with "Inter-governmental debts," and "Foreign dollar bonds in default." Much of the former chapter covers material that is quite familiar, but a useful service is performed in tracing developments resulting from the occupation of conquered lands by Germany. Chapter 5 brings together a good deal of material illustrating the experience of American investors with the several debtor countries. Considerable space is devoted to the formation and effectiveness of bondholders' protective organizations. The existence of several independent organizations of this sort has at times made it difficult for issuers and holders to synchronize their efforts. The last two chapters deal with double taxation among nations, and government facilities for assisting in the financing of foreign trade (mainly the Export-Import Bank.)

The book shows much care in preparation, and is well organized. Its merits are the meticulousness with which official aims are presented, and the success achieved in reducing a large amount of information to a compact and usable form.

KENYON E. POOLE

GRAHAM, F. P., and others. *The poll tax.* (Washington: Am. Council on Public Affairs. 1940. Pp. 23.)

KEYNES, J. M. *How to pay for the war.* (London: Macmillan. 1940. Pp. 78. 1s.)

KILPATRICK, W. *State supervision of local budgeting.* (New York: Nat. Municipal League. 1939. Pp. 131. $1.)

Enlarging public financial competence and advancing social ideals are complementary forces; consequently, our public economy which has been expanded to include much gratuitous service has greatly increased municipal and other local expenditures. Furthermore, since it is productive efficiency which provides the wealth and income to support general well-being, the serious crippling of our economic organization by depression has embarrassed local financing. Scholars and alert administrative officers are ever seeking solutions to persistent old and vexing new governmental problems. Tax delinquency and municipal debt defaults have focused attention upon local budgeting and the desirability of enlisting the aid of the state in a supervisory capacity with the hope that local government might be lifted to a high level of efficiency.

That the reëxamination of state budgetary supervision in the United States reveals the possibility of and necessity for a more complete allocation of this

important function to state supervisory boards is the thesis of this volume. The case examined advocates the extension of state supervision to budget balancing, provision of forms for integrated operation, control of administrative costs, and the relating of financial processes. The tenets of effective supervision set forth include integration of administration, the definition of state responsibility, complete planning, the establishment of standards, and coöperation between state and local officials under democratic control.

The author after extended analysis sets forth a statement of principles, and through persuasive logic concludes that the program of an enlarged state supervision is practicable. The treatment of the subject matter identifies the writer both as a political scientist and as one schooled in the art of government.

The ideas presented are acceptable and the principles enunciated are sound; but the book because of its nature will be best comprehended by the expert. How to render the doctrine popular in the face of local prejudice toward state tutelage is not a simple matter to determine. It is not improbable that the tendency toward centralization of governmental function will meet again with stronger resistance in harmony with American tradition.

Though the sweeping adoption of the advocated thorough-going state supervision of local budgeting cannot be hoped for, the objectives are laudable. Many will respond to the call for assistance in bringing the reform to fruition. Much should be accomplished in a decade or two.

FRANK A. NEFF

LAW, H., compiler. *Insurance tax laws.* (Nutley, N. J.: Compiler. 1939. Pp. 78. $2.)

LUTZ, H. L. *The business man's stake in government finance.* Lectures delivered at the third annual Stanford business conference, July 17-21, 1939. (Stanford University, Calif.: Stanford Univ. 1939. Pp. 119.)

LUTZ, H. L. *The taxation of railroads in New Jersey.* (Princeton: Princeton Univ. Press. 1940. Pp. viii, 208. $2.50.)

Professor Lutz's monograph is of especial interest in New Jersey in view of the current breakdown of railroad tax collections in that state and the ensuing litigation. It is also timely from a national viewpoint because of its bearing on the problem of improving the financial condition of the railroads and on the problems of property tax administration and special business taxation.

Chapter 1 reviews the development of the railroad tax law and chapter 2 covers the growth of railroad assessments and taxes and the effects of the withholding of a portion of these taxes during the current litigation. Chapter 3 criticizes the *ad valorem* theory of railroad taxation and chapter 4 criticizes the procedure of railroad assessment in New Jersey. Chapter 5 considers proposals for reform and chapter 6 discusses the amount of revenue from railroad taxation which might be expected in the immediate future.

Professor Lutz holds that if the *ad valorem* system of railroad taxation is retained, steps should be taken to eliminate so far as possible the present overassessment of railroad property, assessments should give weight to fluctuations in earnings as well as to the reproduction cost of the properties, and the roads should be appraised on a unit basis with a proportion allocated to the state on the basis of track mileage. He favors a gross receipts tax in place of the *ad valorem* system, but makes no positive recommendation for its adoption in New Jersey. Professor Lutz believes that railroad taxes might be made to yield from $8,000,000 to $12,000,000 annually, with the latter figure as "an extreme

upper limit," in contrast to an average annual assessment of $17,683,000 and an average annual collection of $7,790,000 during the period 1932-37. Even the smaller figure mentioned by the author would be a heavy burden on the roads at present and would also be heavy by comparison with the levies of other states.

The reviewer has a few minor criticisms to offer. First, the relation between reproduction cost and capitalized income as measures of property valuation could have been more clearly and fully developed. Second, the difficulties with gross receipts taxation should have been discussed, especially the problem of securing an equivalence of tax burden with businesses subject to property taxation. Finally, some attention might have been given to the suggestion of a committee of the National Tax Association that public utilities be taxed on net earnings, but if the net earnings tax should be less than a gross receipts tax at a lower rate, the latter would be paid.

ROBERT W. HARBESON

MANN, F. K. *Das Endziel der Finanzpolitik.* Sonderdruck aus Etudes Dédiées à la Mémoire d'Andréadès. (Athens: Druckerei "Pyrsos." 1939. Pp. 14.)

PFIFFNER, J. M. *Municipal administration.* (New York: Ronald. 1940. Pp. xvi, 582. $4.)

Contains chapters on finance, social service administration, housing, and public utilities.

ROHR, C. J., editor. *The problem of taxation in Massachusetts.* (Amherst: Massachusetts State Coll. 1939. Pp. 74. Gratis.)

SWIFT, F. H. *European policies of financing public educational institutions. 5. England and Wales.* Univ. of California pubs. in educ., vol. 8, no. 5. (Berkeley: Univ. of California Press. 1939. Pp. 295. $2.50.)

WALDON, S. D. *Federal automotive excise taxes should be repealed.* Statement submitted to U. S. Treasury Dept. (Washington: Am. Automobile Assoc. 1939. Pp. 13.)

*Annual report of the Secretary of the Treasury on the state of the finances for the fiscal year ended June 30, 1939.* (Washington: Supt. Docs. 1940. Pp. xvi, 560. 60c.)

*Commissioners of His Majesty's Customs and Excise: thirtieth report for the year ended 31st March, 1939. Being the 83rd report relating to the customs and the 82nd report relating to the excise.* (London: H. M. Stationery Office. New York: British Lib. of Information. 1939. Pp. 205. 90c.)

*Exemption and preferential taxation of factories.* Bull. no. 24. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 13. 50c.)

*Exemption and preferential taxation of homesteads.* Bull. no. 20. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 15. 50c.)

*Government the citizens' business.* Proc. of citizens' conf. on govt. management, Estes Park, Colorado, June 19-23, 1939. (Denver: Univ. of Denver School of Commerce, Accounts and Finance. 1939. Pp. xviii, 624.)

Includes brief papers on government income and outgo, financial management and control, and social security.

*L'imposta sul patrimonio in Italia ed all' Estero.* Quaderni viii. (Rome: Assoc. fra le Soc. Italiane per Azioni. 1939. Pp. 155. L. 12.)

*Motor fuel tax law of New York with regulations and general instructions, January 10, 1940.* (Albany: New York State Dept. of Taxation and Finance. 1940. Pp. 29.)

*Proceedings of the sixth national conference on assessment administration, held at San Francisco, California, October 10 to 13, 1939.* (Chicago: Nat. Assoc. of Assessing Officers. Pp. iv, 60.)

*Property taxation of intangibles.* Bull. no. 21. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 13. 50c.)

*1939 Revenue act, with complete explanation.* (New York: Prentice-Hall. 1939. Pp. 99. $1.)

*A standard classification of municipal revenues and expenditures.* (Chicago: Nat. Committee on Municipal Accounting. 1939. Pp. 103. $1.)

*State tax administration.* Mich. pamph. no. 6. (Ann Arbor: Univ. of Michigan Bur. of Govt. 1940. Pp. 18.)

*Urban land appraisal: a description of methods employed in assessing property taxes.* Assessment practice ser. no. 2. (Chicago: Nat. Assoc. of Assessing Officers. 1940. Pp. v, 170. $3.)

## Population and Migration

*The Natural History of Population.* By RAYMOND PEARL. (New York: Oxford Univ. Press. 1939. Pp. xii, 416. $3.50.)

In this volume Dr. Pearl continues his reports on the results of the studies that he has been carrying on for many years concerning human fertility in relation to the problems of population. Following introductory material on the biology of fertility and the pattern of reproductivity, main consideration is devoted to the results of an attempt to appraise quantitatively the effect of contraceptive efforts on fertility and the movement of population. The data utilized for this purpose consist of original records, made by obstetricians in first-class urban hospitals, concerning the entire reproductive history of each woman delivered of a baby in the hospital, an account of her use of contraceptives, and information concerning her social, educational, economic, health, and religious status. The material involves 30,949 women resident in or near 26 large cities in 15 states east of the Mississippi River and north of the southernmost tier of states. This unique material is more adequate, comprehensive, and valid, from the scientific viewpoint, than that obtained from the records of birth-control clinics, the only source of information about contraceptive practices hitherto available.

Pearl finds that the extent of contraceptive effort is greater among whites than among negroes, and varies directly with amount of income and degree of education, while as between religious groups the ranking order is Jews, Protestants, Catholics. The effectiveness of contraceptive efforts increases with advancing economic position, but shows no regular or marked statistical association with educational status. The practice of criminal abortion is found to be three times as frequent among those who practise contraception as among the non-contraceptors, indicating an effort to remedy the failures of contraceptive techniques. The broad result that emerges from the study is that "if it were not for the effect of contraceptive efforts and

the practice of criminal abortion, together with correlated habits as to postponement of marriage, there would apparently be little or no significant differential fertility as between economic, educational, or religious classes of urban American married couples."

The decline in fertility is not confined to highly civilized countries, but seems to be a world-embracing phenomenon, positively correlated with the degree of industrialization, urbanization, and consequent population density. From his data on world population Pearl concludes that the mean annual growth-rate per cent for the world population is steadily decreasing at the present time and has been during the recent past.

Whereas the volume does not present startlingly new results, it adds appreciably to the accuracy and refinement of present knowledge concerning fertility and the factors influencing it.

MAURICE R. DAVIE

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NEW BOOKS

CHEN, T. *Emigrant communities in South China: a study of overseas migration and its influence on standards of living and social change.* English version edited by BRUNO LASKER. (New York: Inst. of Pacific Relations. 1940. Pp. xvi, 287. $2.50.)

FAIRCHILD, H. P. *People: the quantity and quality of population.* (New York: Holt. 1939. Pp. 315. $2.25.)

This small volume is an admirably written, non-technical presentation of the topics usually covered in population analysis. Rather than attempt a synthesis of the factual data now available, Fairchild has chosen to present a clear exposition of basic principles underlying Malthusianism, population increase, optimum population, migration, the balance of births and deaths, eugenics, etc. Fairchild here classifies himself both among the moderate depopulationists and the moderate critics of eugenics.

RUPERT B. VANCE

MYRDAL, G. *Population: a problem for democracy.* Godkin lectures. (Cambridge: Harvard Univ. 1940. Pp. 252. $2.)

WRIGHT, F. C. *Population and peace: a survey of international opinion on claims for relief from population pressure.* (New York: Columbia Univ. Press. Paris: Internat. Inst. of Intellectual Co-op. 1939. Pp. xvi, 373. $2.)

This volume, one of a series on "peaceful change" issued by the International Studies Conference and intended primarily for the ordinary reader, presents a conspectus of opinion on problems arising out of disproportions between the international distribution of population and that of resources, and on means whereby these problems may be solved peacefully. Part 1 is devoted to the population situations and claims of the so-called "dissatisfied" countries (chiefly Italy, Japan, Poland, and Germany); part 2, to notions of overpopulation and to present population trends and their various effects; part 3, to solutions for the problems indicated. An appendix on the organization of migration, a source bibliography, an index, and a study of the population capacity of Australia are appended. The practical usefulness of this oftentimes interesting study is somewhat reduced by a not too critical use of sources, and by the fact that

all references are placed at the end of the volume. Needless to say, events since September 1, 1939, have rendered some of the discussion archaic; but certain of the main conclusions remain valid.

The presentation of views concerning the meaning and significance of such concepts as "overpopulation," "underpopulation," "optimum population," "depopulation," etc., is of interest, not because precision is given these terms, but because it reveals to what a remarkable degree the minds of continental writers on population are cluttered with mysticism and verbal rubbish "... a cluttering that has increased in consequence of the post-war intensification of economic and sociological irrationalism." It is evident that until a real effort is made to agree on principles and on the relative weights to be attached to given principles"... an effort that is impossible as long as religious belief masquerades as scientific principle . . ." discussions of the sort summarized by Dr. Wright cannot but be fruitless.

Some definite information relative to the solubility of the "overpopulation" of the so-called have-not nations is provided. Neither emigration nor the redistribution of the colonial holdings of the principal colonial empires offers much in the way of remedy. The development of as yet unexploited domestic food sources will be of quite limited benefit. Industrialization, coupled with freedom of access to both raw materials and consumer markets, remains, one infers from part 3, the principal solution. At no time is the question posed and considered: must not a solution for the problem of population pressure in many countries be sought, in part at least, in a deliberate reduction of their respective numbers? On the contrary, the names of several distinguished scholars are used to bolster economic fallacies that should be evident to sophomores.

J. J. Spengler

*Report of the Royal Commission on the distribution of the industrial population.* (London: H. M. Stationery Office. Pp. x, 320. 5s. 4d.)

*Vital statistics of the United States, 1937.* Part 1. *Natality and mortality data for the United States tabulated by place of occurrence with supplemental tables for Hawaii, Puerto Rico, and the Virgin Islands.* Part 2. *Natality and mortality data for the United States tabulated by place of residence.* (Washington: Bur. of the Census. 1939. Pp. 616; 186. $2; $1.25.)

## Social Problems and Reforms

*Consumer Expenditures in the United States: Estimates for 1935-36.* (Washington: Nat. Resources Committee or Supt. Docs. 1939. Pp. ix, 195. 50c.)

This report is based on the Works Progress Administration project, *Study of Consumer Purchases,* conducted in 1935-1936. Schedules were secured from 60,000 non-relief families in cities of different sizes, in villages and on farms, in 30 different states. Schedules from single individuals were collected only in Chicago and Portland, Oregon; this information was supplemented by data from other sources. The introduction states: "The study provides for the first time in American history an extensive and comparable body of data on the spending habits of the various major groups of American consumers."

The chief emphasis in this report is on differences in consumer outlays according to income. The most important tables, 1 and 2, show the outlays of American families in fifteen income levels for sixteen categories of current consumption, gifts and personal taxes and savings. Tables 3 and 4 show corresponding data for single individuals in the same fifteen income levels. Outlays of consumer units by race, occupation, size of community and section of country do not appear in this report but some of these analyses have been and are being made for publication in other reports.

When the study was proposed, one of its chief objectives was stated to be the information it would give us on the spending of the upper income groups. Such knowledge was needed by students of standards of living and by business-men alike. In the minds of many people this was to be the chief, as it was to be the most unique, value of the study. It is particularly disappointing, therefore, to read on page 136 that the figures for the level of $20,000 and over were secured from only 14 families, 11 in the $20,000-$25,000 income range and three with incomes over $25,000. If the house-to-house canvass of families failed to yield returns from the higher income groups, there were other ways of securing schedules to give a more adequate sample of outlay practices at these levels. As it is, the need for a study of expenditures in the income groups over $20,000 remains practically as great as ever.

The most noteworthy finding of the study is the extent of annual deficits among American families for 1935-1936. Family incomes, on the average, were not sufficient to meet current outlays for the income groups below $1,250; this includes 55 per cent of American families. Incomes below $1,000 were, on the average, insufficient for single individuals; the group includes 61 per cent of all. The report of average deficits for majority groups of families and single persons will lead many readers to ask if there is any general tendency for people to understate rather than to over-state their savings, or if they would have a particular tendency to do so to interviewers who were themselves on a W.P.A. project. In the studies of expenditures of farm families made at Iowa State College, we have found the savings item particularly difficult to get at and likely to be understated. But the schedule used in the consumer purchases study was carefully drawn up, so that so far as inaccuracies could be attributed to the schedule itself they would appear to have been minimized.

There is also the possibility that the years 1935-1936 were not typical years for deficits. The study took account of instalment buying, subtracting from debts amounts paid on commitments made before the current year and adding amounts remaining unpaid on commitments of the current year. If, therefore, because of depletion of household goods during the depression, or for other reasons, the years 1935-1936 were years in which unusually

large instalment commitments were made by the lower income groups, the average deficits would not have so great a significance as if instalment buying were uniform from year to year. The Retail Credit Survey of the Bureau of Foreign and Domestic Commerce does indicate some expansion of instalment buying for 1935-1936 for the country as a whole.

The report states that further analysis of the data will throw some light on the problem of deficits. How are the average deficits distributed among families and individuals, to what extent are deficits met out of past savings, to what extent do they represent unpaid bills? What are their main causes? Certainly such analysis is needed, and more intensive study of the matter of savings and deficits in general, and for other years.

In presenting a percentage picture of total American consumption the report states."Unfortunately no other study has as yet been made for 1935-1936," although the reviewer's estimate for 1936, very similar to the findings of this study, was available.[1] But the most serious omission in the discussion and presentation of the data of this report is information as to average size of families at the different income levels. The report states that it is to be followed by another on adequacy of income, in which size of families must, of course, appear. But some assumptions as to adequacy are evident throughout this report (*e.g.*, pp. 11, 42, 66) and other assumptions also are made which the data presented do not themselves justify. For example on page 8 we read: "These figures suggest there is no discernible limit to the potential expansion of consumer demands," although an estimate of 51 per cent for savings is made for the income group $20,000 and over.

The text of the present report reflects little of the challenge to thinking that would appear to be implicit in the data presented. A collection of data so large and so important as this can hardly be expected more than once in a generation. Their analysis offers a unique opportunity for revising old concepts by pointing out changes in our values: for example, to what extent do these figures show an increase of the conventional relative to the physiological in "necessary" standards of living? Also the data are a stimulus to questions which should lead to new understanding of the consumption process: for example, do we know the most important reasons for difference in the patterns of family as contrasted with individual expenditures? What are the chief causal factors and what is the significance of income elasticity of demand? Response to this challenge we shall look for in other reports.

ELIZABETH E. HOYT

*Iowa State College*

[1] E. E. Hoyt, *Consumption in Our Society* (New York, McGraw-Hill, 1938) p. 254.

## NEW BOOKS

ATWATER, P. *Problems of administration in social work.* (Minneapolis: Univ. of Minnesota Press. 1940. Pp. 331. $3.50.)

COIT, E. G. *Government support of workers' education, with special reference to a study of the relation of private and public agencies in the field of workers' education in Denmark and Sweden.* (New York: Am. Labor Educ. Serv. 1940. Pp. 72.)

DAVIS, S. C. *America faces the forties.* (Philadelphia: Dorrance. 1940. Pp. 283. $2.75.)

DE VINNEY, L. C., ISE, J. and JACOBY, N. H. *Economic issues and 1940.* Univ. of Chicago Round Table broadcast, no. 103. (Chicago: Univ. of Chicago. 1940. Pp. 29. 10c.)

ENZLER, C. J. *Some social aspects of the depression (1930-1935).* (Washington: Catholic Univ. of America Press. 1939. Pp. 187. $2.)

HAGOOD, M. J. *Mothers of the South: portraiture of the white tenant farm woman.* (Chapel Hill: Univ. of North Carolina Press. 1939. Pp. vii, 252. $2.)

This monograph is primarily a qualitative analysis of population based on detailed records of 117 mothers in the North Carolina Piedmont. A comparison made with an equal number of mothers in the "Deep South" shows that the findings apply with but slight deviations throughout the rural Southeast.

The middle section of the book draws vivid individual portraits of farm women, showing them at their three-fold task of farm labor, housekeeping, and bearing and raising children. These pictures are seen against the background pattern of large, patriarchial families living on farms where an "all-work" program narrowly circumscribes interests, but achieves small measure of economic security. More than half the women were between the ages of thirty-five and forty, though they ranged from one of seventy-odd years to an unmarried mother of seventeen. The "typical" mother, married at eighteen, has six or seven children, lives in a four-room, unpainted house, without running water or electricity, and cooks on a wood stove with antiquated equipment. She takes an active interest in the management of the farm but knows little of its financial affairs. In summer the mother is usually barefoot and wears a faded cotton dress; in winter she adds shoes and an old sweater. Though her health is only mediocre, she is emotionally mature and adjusted, devoted to the children she has but fearful of having more.

The portraits of individuals striving for security and "respectability" against great odds ring so true that the book should appeal to the general reader who has normal human curiosity about the lives of his neighbors. For such a reader, a bibliography and an initial definition of the range which "tenancy" included would have been helpful.

For the academic reader and the specialist, the last section of the book gives a valuable account of the technique of the study. The combination of statistical, case, and survey methods is admirably adapted to the material. The book answers many questions about the quality of a group which produces more than its share of the nation's population. It raises others which should stimulate further research.

GLADYS BOONE

HOYT, H. *The structure and growth of residential neighborhoods in American cities.* (Washington: Supt. Docs. 1939. Pp. vi, 178. $1.50.)

Two particular contributions to the literature of urbanism and, more especially, to that of urban residential neighborhoods, may be attributed to this volume. These two contributions are respectively that of fixing and standardizing the technique in this field of investigation and the brief but suggestive chapter 3 of the appendix, entitled "Research in urban growth—an aid in selecting mortgage risks." The latter leads easily to the assumption that, given the basis of standardized technique of data assembly, the resulting body of material will lend itself to more varied and more scientific interpretation than would be the case had the foundation been less stable.

The many figures and illustrations, in reality city maps, show various patterns of city growth, such as age of structures, new dwelling construction, rents in residential areas, etc., and add to the permanent technical value as well as to the fertile possibilities of this volume.

Dr. Hoyt is principal housing economist of the Division of Economics and Statistics of the Federal Housing Administration under whose auspices the volume is published.

A. R. HASSE

JAMES, A. W. *Virginia's social awakening.* (Richmond: Garrett and Massie. 1939. Pp. 209. $3.)

JONES, R. J. *A comparative study of religious cult behavior among negroes, with special reference to emotional group conditioning factors.* Stud. in the soc. sci., vol. ii, no. 2. (Washington: Howard Univ. 1939. Pp. v, 125.)

LESCURE, J. *Etude sociale comparée des régimes de liberté et des régimes autoritaires (essai d'économie sociale comparée).* (Paris: Domat-Montchrestien. 1939. Pp. 479. 80 fr.)

MICHENER, J. A., editor. *The future of the social studies: proposals for an experimental social-studies curriculum.* (Cambridge: Nat. Council for the Soc. Stud. 1939. Pp. 178. $1.50.)

MUSE, M. and OPENSHAW, M. E. *Incomes and expenditures of 299 Vermont village families.* Bull. 450. (Burlington: Univ. of Vermont and Vermont Agric. Exp. Station. 1939. Pp. 46.)

ROREM, C. R. *Non-profit hospital service plans: historical and critical analysis of group hospitalization, a non-profit, non-political application of the principle of insurance to the purchase of hospital care.* (Chicago: Commission on Hospital Serv., Am. Hospital Assoc. 1940. Pp. 130.)

RYAN, P. E. *Migration and social welfare: an approach to the problem of the non-settled person in the community.* (New York: Russell Sage Found. 1940. Pp. 120. 50c.)

SCHNEIDER, D. M. and DEUTSCH, A. *The road upward: three hundred years of public welfare in New York State.* Social welfare today in N. Y. no. 1. (Albany: N. Y. State Dept. of Social Welfare. Pp. 59.)

TEAD, O. *New adventures in democracy: practical applications of the democratic idea.* (New York: McGraw-Hill. 1939. Pp. xi, 229. $2.)

I am personally enthusiastic about this book. I approached it at first with distrust on account of its academic wordiness, but then I found (pp. 99 *ff.*) that it was describing in general terms applicable to all administrative bodies exactly the special experience which I and my colleagues on the new Industrial Commission of Wisconsin had gone through nearly thirty years ago

in taking an old-fashioned political and civil service factory inspection department and converting it into a marvelous "safety first" practical administration for the welfare of the working people of the state. Ordway Tead is writing what he calls a "science of administration," but I can see the actual people that he is talking about and they were doing the thing in as nearly the way he describes in generalized terms as though he had been there. I may be excused for giving to this book this kind of a review. I have read it through and carefully.

The subjects covered, not so much in detail as in their relations to each other, are the selection of personnel, or civil service and leadership; organization for planning contrasted with execution; collective bargaining; self-government and representation of interests in the formation and execution of administrative regulations; the dependence on public opinion and propaganda; the enhancement and safeguarding of individual personality in the midst of the increasing organization for administrative control; and his "new adventures," on the whole, are "administrative democracy" contrasted with the "legislative democracy" of preceding centuries of constitution-making and statute-making.

JOHN R. COMMONS

TIFFANY, M. E. *Clothing consumption of 299 village and 551 farm families in Vermont.* Bull. 451. (Burlington: Univ. of Vermont and Vermont Agric. Exp. Station. 1939. Pp. 48.)

WALLIS, W. D., and others. *Our social world: an introduction to social life and social problems.* Rev. ed. (New York: McGraw-Hill. 1940. Pp. 415. $1.68.)

WILLIAMS, C. B. and STEVENSON, A. H. *A research manual, with a bibliographical guide to college studies and interests.* (New York: Harper. 1940. Pp. xiv, 264. $1.25.)

WOOD, E. E. *Introduction to housing facts and principles.* (Washington: Supt. Docs. 1940. Pp. xi, 161. 30c.)

*Education and economic well-being in American democracy.* (Washington: Educ. Policies Commission. 1940. Pp. 227. 50c.)

*Introduction to housing: facts and principles.* (Washington: U. S. Housing Authority. 1940. Pp. 161. 30c.)

*Urban and rural housing.* (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. xxxvi, 159. 80c.)

An "international study of the methods employed in various countries for improving housing conditions, with special reference to the cost involved and the results obtained" was decided upon by the Assembly of the League of Nations in 1937. The inquiry was entrusted to Mr. Bengt Helger, of the Swedish Social Board, who has had special opportunities to familiarize himself with the problems of housing finance. The study includes observations on the urban and rural housing situation in Belgium, the Netherlands, the United Kingdom, Denmark, Finland, France, Norway, Sweden, the United States and Canada. The 36-page introduction is a topical summary of the outstanding findings in these countries in regard to the organization of real estate credit, post-war trend in housing policy and of subsidies, blighted areas, slum clearance, rural housing and housing cost.

A. R. HASSE

*What does the housing program cost?* (Washington: U. S. Housing Authority. 1940. Pp. 31.)

## Insurance and Pensions

*Financing Economic Security in the United States*. By WILLIAM WITHERS. (New York: Columbia Univ. Press. 1939. Pp. x, 210. $2.75.)

The questions raised by Professor Withers are important. Can we afford such large expenditures for relief and social insurance? How much can we afford? From what sources should the funds be derived? How should they be distributed among the needy? What type of financial administration should be established for these funds? The answers he gives are significant rather for their disclosure of what is involved in the use of certain major premises as a basis for the answers than for the substantial defense of those premises.

Not only can we afford present expenditures, but we could afford 1½ to 2 billions more a year if we should simply revise our tax systems in line with the recommendations of the Model Tax Plan of a Committee of the National Tax Association. The author accepts Professor Newcomer's estimates of what would have been available under such a system of taxation.

The source of funds should be found in progressive rather than in regressive taxes. In defense of this conclusion, the author takes his stand with those economists who see the need for government spending and investment to take up the slack in purchasing power and private investment characteristic of a depression in normal economic activity. The sentiment in favor of lower taxation for the sake of business improvement he thinks is not justified. The problem is not so much in the amount of taxes as in the form they take. Decreasing emphasis on regressive taxes, including payroll taxes, which take away with one hand what is given in the form of benefits by the other, is desirable. Increasing emphasis on progressive taxation which effects a sounder use of income will actually stimulate opportunities for profitable enterprise. These reasons are stated rather than defended.

The author favors the reassertion of what he calls the "need" (as opposed to the "ability") principle in the distribution of funds to the needy. This can be accomplished through allocating a large share of the funds to direct relief, modification of the qualifications for social insurance so that less reliance is placed on ratio of benefits to previous wages, determination of work relief wages by reference to need, national rather than local administration and the use of grants in aid to equalize the relief burden between the states. Why emphasize the need principle? Because this is the liberal position, and by implication because this approach is most likely to correct the maladjustments in capitalist economic processes which call for remedy. One might agree with many of these suggestions for distribution of funds and still wish that Professor Withers had undertaken a more substantial defense of his basic position that the "need" principle is the appropriate guide for that distribution.

In order to distribute funds according to this principle it will be necessary to devise a formula for federal allocation of funds which will take into account the several factors influencing the relative need of the states for funds and their relative ability to raise funds from local sources. If the confusion of F.E.R.A. days is to be avoided and funds distributed in accordance with a plan designed to accomplish the purposes assumed to be desirable, such a formula is imperative. The author names many of the factors that can be taken into account, but his suggestion for a formula begs the whole question of which factors are to be selected and what weighting is to be given to the several factors. Labelling *the relief load* as "light, medium and heavy," and labelling *economic capacity, fiscal situation, political, administrative and civic situation,* as "good, fair, and bad," provides little clue as to the way objective evidence warranting such classification is to be gathered and its significance measured. This is the heart of the problem.

Professor Withers introduces his discussion of these problems by a concise and orderly summary of the development of economic security measures since 1929. His analysis in terms of their emphasis on the "need" as opposed to the "ability" principle is a welcome departure from the unanalyzed fact presentation of most summaries of this development. He is inclined to describe the process as a dramatic struggle between these two principles, but he is not unaware of the practical reasons which stimulated the changes which took place. Whether or not the resulting arrangements are the product of a struggle between two principles, his definition of what is involved in arrangements consistent with each of them furnishes a convenient summary of issues around which the development has taken place. Small public expenditures or large; local or national responsibility; benefits in proportion to earnings or in accordance with need; payments to workers-on-relief in accordance with service rendered or without regard to the value of services; these are issues which will continue to be debated for some time to come. The contribution of Professor Withers' book is to state these issues and show what is involved in one approach to their settlement rather than to furnish the complete answer to the many questions of policy and conflicting interests involved in the problems of financing economic security in the United States.

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NEW BOOKS

COHEN, W. J. *Unemployment insurance and agricultural labor in Great Britain.* Pamph. ser. no. 2. (Washington: Committee on Social Security, Soc. Sci. Res. Council. 1940. Pp. viii, 32. 50c.)

FÉRAUD, L. *Actuarial technique and financial organisation of social insurance: compulsory pension insurance.* Stud. and rep., ser. M, no. 17. (Geneva and Washington: Internat. Labour Office. 1940. Pp. vi, 568. $4.)

GILBERT, E. A. and GILBERT, M. *Life insurance: a legalized racket.* (New York: Farrar and Rinehart. 1940. Pp. 224. $1.)

HOBBS, C. W. *Workmen's compensation insurance, including employers' liability insurance.* 2nd ed. (New York: McGraw-Hill. 1939. Pp. xviii, 707. $5.)

The title page of this book carries the information that it is a second edition, and it is based in large part upon the book by Michelbacher and Nial, bearing the same title and published in 1925. But the present work is, in fact, practically a complete rewrite, with much amplification (from 503 to 707 pages) and major changes in arrangement and presentation.

It is significant that this is the first general work on the subject of compensation for industrial accidents in well over a decade. And, as we round out thirty years of experience in this country with this type of social insurance, modernization of the texts and manuals is in order. Recent new social legislation and liberalization of older laws makes this need more urgent. Mr. Hobbs has responded to this demand by expanding the discussion of subjects upon which have centered many of the recent problems and changes; included employments, injuries covered, and benefits granted.

Other important improvements are the enlargement and more logical arrangement of the chapters on insurance carriers and rate making; weeding out of the appendices material that was of doubtful value and substituting significant and useful tables and charts, such as a comparison of benefits under the various state and federal laws; and the compilation of a separate index of cases. A "Table of Selected References," containing but nine items, is far from adequate, and a more complete bibliography would have been a worthwhile addition.

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## Statistics and Its Methods

### NEW BOOKS

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CAMPION, H. *Public and private property in Great Britain.* (London and New York: Oxford Univ. Press. 1939. Pp. xvii, 130.)

This short monograph is primarily a statistical study "to show the changes

which have occurred in the distribution of private property since the war, and to indicate the extent to which the unequal distribution of property is a factor producing inequality in the personal distribution of wealth in Great Britain" (p. 1). The author has been careful to define his terms, to safeguard against double counting, and to set forth the methods employed in making the study.

The difficulties besetting the investigation are brought into bold relief. Should the Central Electricity Board or the Port of London Authority be considered public or private property? How is the value of public property such as roads, charities, and armaments, to be estimated? The study is made on the basis of the *value* of property and, to the reviewer, this emphasizes the difficulty of measurement in economics so ably stressed by Professor Cannon (*Review of Economic Theory,* p. 52). The author, however, has demonstrated that the bulk of property in Great Britain is privately owned, that public property has been growing since 1911 and now comprises probably about one-sixth of the total national property. The increase has come largely in social security funds and the erection of houses by local authorities. The growth of corporate enterprise has led to an increasing separation of ownership and use of capital.

The conclusion is reached that the increase in public property has lessened the real inequality in the distribution of property and incomes among individuals; also that property is more equally distributed in private hands than 25 years ago, but that inequality in the distribution of property is probably the most important factor in producing inequality of income in Great Britain. This raises the fundamental problem of the extent to which property ownership produces unequal incomes and the extent to which inequality in ownership is the result of inequality of incomes. The author leaves the impression that he favors a more equal distribution of income but he does not make a case for that contention.

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# The Election Procedure of the American Economic Association

The current election of officers of the Association will be the seventh under the present method of compulsory balloting, which was adopted after considerable discussion and for fairly weighty reasons. However, nothing is perfect, and the imperfections of the present system have had time to make themselves evident to those who have been watching its operation. Some have reached the point of favoring a definite change. Therefore it seems appropriate to present the pros and cons of the question to the membership, possibly with greater emphasis on the objections to the present system, since the membership may be less familiar with them.

The original method involved the nomination of a single slate of officers by a Nominating Committee appointed by the President, and while nominations from the floor were always in order, nomination by the Committee was in effect equivalent to election. This method was perhaps appropriate to an Association with a membership, many of whom were not professional economists, while the professional economists constituted a small and fairly homogeneous group. It involved the self-perpetuating principle, and was not democratic.

As these conditions altered, the drawbacks to election by membership-ballot (which were quite real in the early days) diminished, and the ballot came to seem desirable to many as a more democratic procedure, and one that might give better representation to the growingly diverse elements among the professional economists. Thus, in 1934, the present method was adopted, whereby a Nominating Committe, appointed by the President, names two candidates for each office, from whom one is elected by mail ballot (with the privilege of writing in other names). This method has apparently accomplished some of the ends in view, and has undoubtedly had some effect, not only on the ultimate choice for office, but also on the character of the nominations themselves.

Such dissatisfaction as exists appears to center on the presidency, though there may be some minor drawbacks connected with the other offices. There is a group which believes that the presidency should be regarded as a competitive elective office like the others, and that the present procedure should therefore be retained without modification. And there is another group which holds a different view, partly in terms of the character of the office, partly in terms of the adequacy of the elective test, but mainly, perhaps, on the ground that, as the system operates, a defeated candidate is unlikely to run again and thus becomes permanently unavailable—to the detriment of the Association, which thus not only loses the services of an increasing number of first-class men, but also loses the chance to honor their achievements as they deserve. This problem may be on the point of becoming serious.

The reluctance to run a second time is quite natural, and need not be attributed to undue sensitiveness, or to any ungenerous feeling. One does not wish to appear unduly desirous of office, however little the facts might justify such a judgment. Moreover, the man who runs a second time exposes himself to the chance of being defeated a second time, and this might be a real injustice to a man of the first caliber, who might be one who should ultimately be chosen, and who may have made a close race both times against strong opposing candidates. Furthermore, logical candidates for the presidency are men with many calls on their time, and it may not be practicable for them to have their decks clear enough, in *several separate years,* to justify them in running the chance of

election to an office which is coming to make quite heavy demands on time. They may also have incurred similar liabilities as presidents of allied societies. Something may be done to increase the willingness of defeated candidates to run again, but the obstacle will remain.

It is in the light of all this that one must look on the other questions that are raised: whether the ballot election is appropriate to the character of the office, and whether it is a thoroughly dependable way of choosing the right man. There is some feeling that the presidency should be regarded, not as a political office, but as an honor conferred by the Association without public competition, in recognition of the candidate's contributions to scholarship, public service or teaching; and also that in a given case the man who most deserves this honor may not necessarily be the one who can command the largest number of votes in a close competitive election. Some kinds of contributions of high merit are of a sort less well known to the membership at large than others, and are less likely to be found on the winning side in a ballot contest. I should not be inclined to stress this point in itself; but in connection with the disinclination to run a second time it seems to carry more weight. Choice by the members' ballots may be no more and no less fallible than a more private choice by a smaller body; but whatever fallibility it has is a more serious matter in proportion as the result (in the case of the defeated candidate) seems to be so permanent.

These considerations seem to carry weight. So also do the considerations that were responsible for the setting-up of the present election method, six years ago. I can testify personally that it is hard to say which kind of responsibility is more calculated to give pause to a member of a Nominating Committee: choosing officers outright, or nominating a list of good men, half of whom are certain to be defeated. The case is by no means one-sided.

As to the basic ends in view, we are probably fairly well of one mind. I think nearly every one would agree that in the selection of our Presidents two considerations should be paramount. First, election to the office should be a recognition of achievement. In any substantial period, the list of our Presidents should be the list of those of our members who have been outstanding in that period. Second, the determination of what constitutes outstanding achievement, and of who has attained thereto, should be made in a manner that gives reasonable representation to the geographic, doctrinal and technical differences within the membership of the Association. The question at issue is not so much these objectives as how best to attain them and to reconcile them.

As to the second objective, it is not clear beyond question that a change from the balloting system would sacrifice it. At present much still depends on the small, appointive Nominating Committee; and a broader and more representative nominating machinery might do as much toward making the choice representative as does the actual choice by ballot, within the limits of the Committee's nominations.

With this in view, an alternative procedure has been tentatively suggested by some of our members. It is as follows. First, the Vice-Presidents and the elected members of the Executive Committee would be elected as they are now. Second, a *single* candidate for President would be proposed, but would be selected by a substantially larger group. Here two alternative suggestions have been made. (1) This larger group might consist of the current Nominating Committee plus the current officers and other members of the Executive Committee, a group of 18 or 19. Within this aggregate, the Nominating Committee might retain the sole right to originate nominations, while the group voting as a whole

would select the candidate to be placed before the Association, and might also have the right to ask for additional nominations. (2) The larger group might consist only of the current elected officers and other elected members of the Executive Committee, including the three preceding Presidents (who are members of the Executive Committee *ex officio*). Under either alternative, the selecting group would in effect be a sort of electoral college. Its members would, of course, be debarred from nomination to the presidency in the current year. Third, the name of the single candidate thus finally chosen would be submitted to the Association, with the write-in privilege; but nomination would usually be tantamount to election.

It is argued that a selecting group of the size proposed (nearly half of it elected directly by the membership of the Association under the first alternative above, and two-thirds of it under the second alternative) would be at once large enough and sufficiently varied in composition to be more representative than the small Nominating Committee, as well as providing better guarantees than now exist against the self-perpetuating domination of any one group, and would hence be more "democratic"; it would also be large enough to assure the application of adequate standards of achievement in the selection of the candidate.

An added feature which has occurred to me might be to include a space in the ballot in which members would be expected to write in advisory presidential nominations, not for the current election but for the guidance of the next succeeding nominating body. This might be done, whether the other proposed change is adopted or not. Such advisory votes would naturally be scattered, but might afford a valuable test of the strength of various potential candidates.

I do not wish to take sides at present, either for or against the suggested change, though I do feel the drawbacks of the present method rather strongly. The problem seems important enough to deserve active discussion, which might find part of its expression in the columns of this *Review*. Possibly some better proposal might emerge. If any large number feel that a change is desirable, the question may well be brought up more formally, at or before the next annual meeting of the Association.

J. M. Clark

*Columbia University*

## Annual Meeting of the American Economic Association

The Fifty-third Annual Meeting of the American Economic Association will be held in New Orleans, with headquarters at the Roosevelt Hotel, beginning on the morning of Friday, December 27, and extending through Monday, December 30, 1940. The formal program will include a related series of meetings on certain of the persistent economic problems faced in this country. Sessions will be devoted to the federal budget and deficit financing, the price level and the gold problem, the present rôle of private investment, unemployment, the status of agriculture, and the international economic relations of the United States. Members scheduled to participate in these sessions will hold a preliminary two-day meeting in New York in September, for the discussion of preliminary drafts of the papers to be presented at New Orleans. This advance meeting is made possible by a special grant of the Social Science Research Council.

Other sessions at the December meeting will deal with the economic consequences of the war to the United States, problems of economic regionalism (with special reference to electric power and freight rates) and economic research. One session will commemorate the semi-centennial of the publication of Alfred Marshall's *Principles*.

The plans for the New Orleans meeting provide special opportunities for social activities, and for friendly and unhurried intercourse among members. Special trains from the eastern seaboard and the Chicago area (and probably from the Pacific Coast) will enable members to meet under pleasant conditions en route. The program includes an afternoon tea and a smoker. Free time has been left on Saturday evening and Sunday for visiting and sight-seeing in New Orleans and the surrounding country. It is hoped that these arrangements, and the opportunity to combine a winter vacation in the South with attendance at the formal sessions, will stimulate many members to bring their wives and families to the New Orleans meeting.

The program as a whole will be sponsored by the American Economic Association and the Southern Economic Association. Joint meetings will be held with the Econometric Society and the American Farm Economic Association.

Transportation arrangements are in charge of a committee consisting of James W. Bell, Morris A. Copeland, Robert W. Elsasser, Bernard F. Haley, Calvin B. Hoover, Edward S. Mason, George W. Stocking and C. Reinold Noyes, chairman.

Robert W. Elsasser, of Tulane University, New Orleans, is chairman of the Committee on Local Arrangements, and Dr. Elizabeth B. Schumpeter is chairman of a Hospitality Committee. The members of the committee in charge of the general program include James W. Angell, James W. Bell, Frank W. Fetter, Paul T. Homan, Calvin B. Hoover, C. Reinold Noyes, Elizabeth B. Schumpeter and Frederick C. Mills, chairman.

## NOTES

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The federal Department of Commerce has announced its coöperation with the National Resources Planning Board in a study of research by business. An advisory committee for the study has been appointed by the Social Science Research Council, as follows: Edwin G. Nourse, chairman; Howard Coonley, chairman of the board of Walworth Company; R. R. Daupree, president of Proctor and Gamble Company; M. B. Folsom, treasurer of Eastman Kodak Company; Clarence Francis, president of General Foods Corporation; Morris E. Leeds, president of Leeds and Northrup Company; R. Douglas Stuart, vice-president of Quaker Oats Company; Walter C. Teagle, chairman of the board of Standard Oil Company of New Jersey; Willard L. Thorp, economic adviser to Secretary of Commerce Hopkins and director of economic research of Dun and Bradstreet; Edwin B. Wilson, chairman of the Science Committee, National Resources Planning Board.

The study of research by business will run concurrently with a similar undertaking on research by industrial laboratories under the guidance of the National Academy of Sciences. The results of these two studies will constitute Part II and Part III, respectively, of the report by the Science Committee of the National Resources Planning Board on *Research—A National Resource*. John H. Cover, professor of statistics at the School of Business, University of Chicago, has obtained leave of absence to direct the study.

The Twentieth Century Fund announces the appointment of a committee to make a survey of housing needs as they present reëmployment opportunities. Miles L. Colean, formerly assistant administrator of the Federal Housing Administration will act as research director. Henry E. Hoagland, professor of business finance at Ohio State University, is chairman of the committee sponsoring the survey.

The oldest of the conferences sponsored by the Universities-National Bureau of Economic Research Committee—that on Price Research—held its fifth annual meeting April 19-20. F. C. Mills, now president of the American Economic Association, has guided the conference through its early stages to the publication of reports by four exploratory committees: on price research in the bituminous coal, steel, petroleum, and textile industries. Two standing committees are now functioning: that on Governmental Price Regulation, with Waldo E. Fisher as chairman; and that on Cost-Price Relations and Price Determination, with E. S. Mason as chairman. Professor Fisher is assisted by C. M. James; Professor Mason is assisted by J. T. Dunlop. A third standing committee—on Business Price Policies—is being set up under two chairmen: Donald Wallace of Williams College and M. G. de Chazeau of the University of Virginia.

E. S. Mason was elected chairman of the conference. The executive committee is composed of A. R. Burns, M. A. Copeland, F. C. Mills, E. G. Nourse, W. L. Thorp and T. O. Yntema.

The Social Science Research Council states that only eighty complete sets of *Social Science Abstracts* now remain in stock. It will not be feasible to continue distribution of any sets remaining on December 31, 1940, on the present basis. At that time all except a few of the unsold sets will be destroyed, and those saved will be reserved for possible library requests. Information may be obtained from Donald Young, Social Science Research Council, 230 Park Avenue, New York City.

The American Council on Public Affairs announces a new policy "to promote the spread of authoritative facts and significant opinions concerning contemporary social and economic problems" and for this purpose is prepared to sponsor, publish, promote and distribute scholarly books and studies in these fields. Further information may be obtained from the Council's headquarters, 1721 Eye Street, Washington, D.C.

The Department of State has received a request from the Foreign Office of Ecuador to announce the desire of a group of university students in Quito to hear lectures by foreign economists. While the students have no fund to pay for travel to and from Quito, they are ready to cover the expenses of lecturers during their stay in Quito. This announcement may be of interest to economists who are planning trips to South America. For further information write to Mr. Ben M. Cherrington, chief of the Division of Cultural Relations, Department of State, Washington.

A program to stimulate studies in the field of international relations has been undertaken by the American Committee for International Studies. Members of the Committee are: Edward Mead Earle, Institute for Advanced Study at Princeton, chairman; William W. Lockwood, formerly of the American Council of the Institute of Pacific Relations, secretary; J. B. Condliffe, Frederick V. Field, Alvin H. Hansen, Calvin B. Hoover, Philip C. Jessup, Chester Lloyd Jones, Frank R. McCoy, C. F. Remer, Whitney H. Shepardson, James T. Shotwell, Jacob Viner, and Henry M. Wriston. The Committee will welcome information and inquiries, which should be addressed to Edward M. Earle, American Committee for International Studies, Princeton, New Jersey.

The Bureau of Employment Security, Social Security Board announces the publication of *The Benefit Series*. This will contain a monthly compilation of significant decisions on appealed benefit claims under state unemployment compensation laws. Orders should be sent to the Superintendent of Documents, Government Printing Office, Washington. Volumes 1 and 2, $3.00; General Supplement No. 1, *Benefit Decisions of the British Umpire: A Codification and Text of Selected Decisions,* $1.00.

The National Federation of Business and Professional Women's Clubs is engaged in a research study relating to the position of married women in the economic world. For further information address National Federation of Business and Professional Women's Clubs, 1819 Broadway, New York City.

The fourth Pacific Northwest Conference on Banking was held at the State College of Washington, Pullman, on April 4-6. Among the papers presented were "The Effect of the War on Credit" by Walter Lichtenstein, "Revenue Bonds as an Investment" by J. E. Muckley, "The Industrial Future of the Pacific Northwest" by Ivan Bloch, and "A Loan and Investment Program for the Present" by G. Sydney Houston. The proceedings will be published.

The Mid-West Economic Association held its seventh annual meeting at Des Moines, Iowa, April 18-20, attended by 250 members. The following officers were elected for the ensuing year: president, J. E. Kirshman, University of Nebraska; first vice-president, J. S. Robinson, Carleton College; second vice-president, H. L. Jome, DePauw University; secretary-treasurer, C. W. Thompson, University of Iowa.

The twenty-second annual meeting of the American Association of Collegiate Schools of Business was held at the University of Texas, April 18-20. The following officers were elected: president, J. Hugh Jackson, Stanford University; vice-president, Charles C. Fichtner, University of Arkansas; secretary-treasurer, Herluf V. Olson, Dartmouth College.

The Mississippi Valley Historical Association held its meeting at Omaha, May 2-4. Among the papers presented were "Economic Development of the Black Hills Region" by C. G. Beckwith, University of South Dakota; "The Passing of the Small Oil Man" by Gerald Forbes, Northeastern Oklahoma State College; "The Development of the Range Cattle Industry" by Ora B. Peake, Colorado State College of Education; "Grangerism—A Product of the Frontier or of the Agricultural Revolution?" by Benton H. Wilcox, Wisconsin Historical Records Survey.

The tenth Stevens Conference of Business and Engineering Administrators will be held at Johnsonburg, New Jersey, June 22-30. For further information address Arthur E. Blirer, assistant to the president, Stevens Institute of Technology, Hoboken, New Jersey.

The Citizens' Conference on Government Management will be held at Estes Park, Colorado, June 17-22. Among the subjects to be discussed are "Conserving the Credit of Our Local Governments," "Balancing the State and Local Tax Structure," "The Administration of Public Relief," and "How Shall Business Be Taxed?" For further information address the School of Commerce, Accounts, and Finance, University of Denver.

The sixth annual Business Education Conference of the University of Denver will be held June 26-27. The general theme will be "Utilizing Community Resources in the Teaching of Business Education." A detailed program may be obtained by addressing the director of the Summer Quarter, School of Commerce, University of Denver, Denver, Colorado.

"Business Education for What?" is the general theme of the seventh annual University of Chicago conference on business education, to be held in the University's School of Business, June 27-28. For further information address Carl F. Huth, director of the Summer Quarter.

The sixteenth institute under the Norman Wait Harris Memorial Foundation in International Relations will be held at the University of Chicago June 25-July 3. The subject of the institute will be "The Foundations of a More Stable World Order."

The Cowles Commission sixth annual Research Conference on Economics and Statistics will be held at Colorado College, Colorado Springs, July 1-26. For details address the Cowles Commission, University of Chicago, Chicago, Illinois.

The Summer Institute for Social Progress at Wellesley will be held July 6-20 at Wellesley College, Wellesley, Massachusetts. The theme is to be "Building Democracy." Peter H. Odegard, professor of politics at Amherst College is faculty head; and Henry E. Warren, president of Warren Telechron Company is the elected head of the Institute. A program may be obtained from Dorothy P. Hill, director, Wellesley, Massachusetts.

The American Advisory Economic Mission to Venezuela has completed its assignment in that country and returned to the United States. The personnel of the Mission was: A. Manuel Fox, United States Tariff Commission, chairman; James H. Edwards, adviser in customs administration and fiscal matters; Martin Krost, Federal Reserve Board; Harold R. Spiegel, United States Treasury Department; Harold V. V. Fay, United States Tariff Commission.

The National Bureau of Economic Research released in January the first of the studies prepared under the direction of the Advisory Conference on Research in Finance entitled *Personal Finance Companies and Their Credit Practices.* Four more studies are in press: *Commercial Banks as Agencies of Consumer Instalment Credit; Sales Finance Companies and Their Credit Practices; Government Agencies of Consumer Instalment Credit; The Pattern of Consumer Debt, 1935-36.*

*Semi-Fixed and Permanent Capital for Small Business* is a 40-page mimeographed study by the Lincoln and Therese Filene Foundation, Inc., 426 Washington Street, Boston, copies available at 20 cents. The report draws two conclusions: (1) That small business is unable to secure permanent capital on terms comparable to those on which larger business units secure capital; (2) That the weight of evidence and opinion indicates a real need for long-term loans for small business, for working capital, the purchase of equipment, etc., for terms of five, ten or even fifteen years.

A study made for the National Orchestral Survey under a grant of the Carnegie Corporation is entitled *America's Symphony Orchestras and Who Supports Them,* by Margaret Grant and Herman S. Hettinger (New York, Norton, 1940). It deals with economic problems of symphony orchestras and what can be done to increase their economic stability.

John Atkinson Hobson died in London on April 1.

Lincoln Hutchinson, former professor of economics at the University of California, died at San Francisco, May 22.

Olin Ingraham, assistant professor of economics at the Massachusetts Institute of Technology, died May 10.

## *Appointments and Resignations*

Charles C. Abbott has been promoted to the position of associate professor of business economics at Harvard University.

Wendell M. Adamson has been relieved of his teaching and his duties as statistician for the bureau of business research at the University of Alabama School of Commerce and Business Administration and assigned to a special study of "Commodity Production in the Southeast," sponsored by the bureau.

Willard D. Arant has accepted a position as research director of the National Economy League in New York.

John C. Baker has been promoted to the position of professor of business administration at Harvard University.

Warren Baker is instructor in economics at the University of Alabama School of Commerce and Business Administration.

E. Wight Bakke has been made director of graduate study in the economics department at Yale University.

Grace Beckett is associate professor of economics at Indiana Central College.

T. N. Beckman of Ohio State University will teach courses in marketing during the summer session at the University of Colorado.

Daniel Borth, auditor of Louisiana State University and associate professor of accounting was reëlected secretary-treasurer of the Southwestern Social Science Association.

W. Baldwin Buchanan, instructor in accounting at Georgetown University and practising certified public accountant, will offer courses in the department of accounting in the 1940 summer session of the Catholic University of America.

Louis F. Buckley, acting head of the department of economics and associate professor of economics at Notre Dame University, will teach in the 1940 summer session of the Catholic University of America.

Eveline M. Burns in December, 1939, was appointed director of research on the Committee on Long Range Work and Relief Policies which the National Resources Planning Board is now undertaking at the request of the President. Columbia University has relieved Dr. Burns of her academic duties during the year 1940-41 in order to enable her to carry out this assignment.

Persia Campbell of Columbia University will be instructor in economics at Queens College, Flushing, New York.

N. H. Comish, professor of business administration at the University of Oregon, is offering courses in the 1940 summer session of the University of Utah.

John F. Cronin, professor of economics at St. Mary's Seminary will teach two courses in Catholic economic thought at the 1940 summer session of the Catholic University of America.

Elizabeth Curtiss has been appointed lecturer in economics at Wellesley College.

Edward F. Denison, Jr., has been appointed part-time instructor of economics at Brown University for the academic year 1940-41.

T. N. Farris, professor of economics at Louisiana State University, was elected chairman of the economics section of the Southwestern Social Science Association.

Raymond F. Farwell has been promoted to professor of transportation at the University of Washington College of Economics and Business.

Wirth W. Ferger has resigned as associate economic adviser to the Secretary of Agriculture to accept the position of assistant director of the Division of Economics, Insurance, Warehousing and Transportation of the Commodity Credit Corporation.

Franklin E. Folts has been promoted to professor of industrial management at Harvard University.

Arthur D. Gayer has resigned his position at Barnard College in order to take an associate professorship at Queens College, Flushing, New York.

James E. Gillis, instructor in accounting at Columbus University and practising certified public accountant, will offer courses in the department of accounting at the 1940 summer session of the Catholic University of America.

Frank D. Graham, professor of economics at Princeton University, will teach during the summer session at Northwestern University.

John A. Guthrie has accepted a position as assistant professor at the State College of Washington.

Frederick H. Harbison of Princeton University has been appointed instructor in economics at the University of Chicago.

E. J. Hawk of Birmingham-Southern College will teach during the summer session at the University of Virginia.

Kent Tenny Healy has been advanced to the rank of associate professor in the department of economics at Yale University.

W. Lawrence Hebbard will pursue a research project in Washington during 1940-41 as a holder of a Michigan-Brookings coöperative fellowship.

Thomas M. Hill, instructor in economics at Yale University has been awarded a Royal Victor Fellowship at Leland Stanford University for the year 1940-41.

Edgar M. Hoover, Jr., University of Michigan, has served as consultant with the St. Lawrence Waterway Survey in the Department of Commerce.

Stanley E. Howard, Princeton University, has been promoted from associate professor to professor.

Lowell F. Huelster of the American University has accepted a position as acting chairman of the department of business administration and associate professor of business administration at the Central Y.M.C.A. College, Chicago.

Warren S. Hunsberger has been appointed assistant professor of economics at the University of New Hampshire.

Pearson Hunt has been promoted to an assistant professorship in the department of economics at Yale University.

John G. B. Hutchins has accepted a position at Cornell University for next year. Dr. Hutchins, who has been an instructor in economics at Rutgers University, has been awarded the David A. Wells prize of $500 for outstanding original research in economics by Harvard students or recent graduates.

F. Cyril James of the University of Pennsylvania has been appointed principal and vice-chancellor of McGill University.

Stuart Jamieson of the University of California has been serving as instructor in economics at Oberlin College for the second semester of the present year.

Russell E. Johnson, instructor in economics at the University of Alabama School of Commerce and Business Administration, has been relieved of most of his teaching in order to serve as acting statistician for the bureau of business research while Wendell M. Adamson is on leave.

Michael Jucius of Ohio State University will offer courses in industrial management during the summer session of the University of Chicago.

Clark Kerr, acting assistant professor at Stanford University, has been appointed assistant professor in labor in the College of Economics and Business at the University of Washington.

Lowell Kirkpatrick has been appointed part-time instructor of economics at Brown University for the academic year 1940-41.

Simeon E. Leland is chairman of the department of economics at the University of Chicago. He has resigned his chairmanship of the Illinois State Tax Commission.

A. P. Lerner has been appointed acting associate professor of commerce at the University of Virginia during the spring term.

Richard A. Lester of the University of Washington will serve as director of a survey on industrial relations in the Pacific Northwest for the Northwest Regional Council during the spring and summer months.

Ben W. Lewis of Oberlin College has been on leave of absence for the second semester of the present year, serving as chief of the economic section of the Consumer's Council Division, Department of the Interior, stationed in Washington.

John A. Loftus of Johns Hopkins University has been appointed assistant professor of economics at Holy Cross College.

Arthur N. Lorig of the College of Economics and Business at the University of Washington is serving as consultant in accounting for the Municipal League of Seattle in connection with his university duties.

Arthur F. Lucas of Clark University has been visiting professor of economics at Wellesley College during the second semester of the present year.

A. M. McIsaac, associate professor of economics at Princeton University, has been granted a leave of absence for the second term of 1940-41.

Fritz Machlup of the University of Buffalo will teach during the summer quarter at Stanford University.

C. Ward Macy of Coe College will teach at the University of Washington summer school.

Alfred Manes has been lecturing in Puerto Rico during his leave of absence from Indiana University, and has also been invited to lecture in Spanish at the University of Havana, Cuba, in the department of social and political science and the School of Commerce.

Donald Marsh has accepted a position at Barnard College as instructor of economics.

Boyce Ficklen Martin, assistant dean at Harvard Graduate School of Business Administration, has been elected dean of the School of Business Administration at Emory University.

John Perry Miller, who has been a visiting lecturer at Yale University during the present academic year, has been appointed assistant professor in the Yale department of economics.

Elizabeth Morrissy, professor of economics at Notre Dame of Maryland College and the National Catholic School of Social Service, will teach in the department of economics at the 1940 summer session of the Catholic University of America.

Vernon A. Mund has been granted a leave from the University of Washington for the autumn and winter quarters of 1940-41 to engage in research on industrial prices under a fellowship of the Social Science Research Council.

Richard A. Musgrave has been appointed instructor and tutor in economics at Harvard University.

William A. Paton, professor of economics and accounting at the University of Michigan, gave the Dickinson Lectures on April 11 and 12 at the Graduate School of Business Administration of Harvard University.

Elmore Petersen, dean of the School of Business of the University of Colorado, will offer courses in industrial management during the first summer session of Ohio State University.

Wilbur K. Pierpont, University of Michigan, will pursue a research project in Washington during 1940-41 as a holder of a Michigan-Brookings coöperative fellowship.

Raymond J. Saulnier will succeed Professor Arthur Gayer as assistant professor of economics at Barnard College, joining the staff in the autumn of 1940.

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Edmond T. Sergott is now instructor of economics at the Catholic University of America.

Charles S. Sheldon, 2nd, is to be instructor in transportation at the University of Washington.

Dan T. Smith has been promoted to the rank of associate professor of finance and taxation at Harvard University.

George A. Smith, Jr., has been promoted to the rank of associate professor of business at Harvard University.

James G. Smith, professor of economics at Princeton University, will be on leave of absence during the first term of 1940-1941.

Lawrence Smith is to be chairman of the economics department at Wellesley College.

S. D. Southworth of the department of economics of the College of William and Mary has become a member of the American Economists Council for the study of branch banking.

Edward D. W. Spingarn has accepted a position as instructor at Trinity College in Hartford.

James M. Stepp has received an appointment to the faculty at Clemson College.

Lorie Tarshis of Tufts College has been granted a year's leave of absence to work with the National Bureau of Economic Research.

Albion G. Taylor, assistant dean of the College of William and Mary, will offer courses at the summer session of the University of Oregon.

W. G. Thornborough, assistant professor of business administration at The Citadel, was granted a leave of absence for the year 1939-40.

Mary Van Brant will be a department assistant at Barnard College next year.

Jacob Viner has been appointed to the Morton D. Hull Distinguished Service Professorship at the University of Chicago.

Willard Waller has been acting head of the department of economics and sociology at Barnard College during the sabbatical leave of Professor Baker.

George S. Wehrwein of the University of Wisconsin is to give a course in land economics at the University of Chicago this summer.

William G. Welk has resigned his post of professor of economics at the College of St. Thomas, to accept the position of senior commercial policy analyst with the United States Tariff Commission.

John P. Wernette has been promoted to the rank of associate professor of business economics at Harvard University.

William Withers has been promoted from the rank of assistant professor of economics to that of associate professor of economics and chairman of the department of economics at Queens College, Flushing, New York.

Paul H. Wueller has returned to his duties at Pennsylvania State College. He will remain with the Bureau of Research and Statistics of the Social Security Board at Washington, as principal consulting economist.